REPORT OF THE WORKING GROUP ON THE MODALITIES OF IMPLEMENTATION OF THE PRIORITY SECTOR LENDING AND THE 20-POINT ECONOMIC PROGRAMME BY BANKS

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CHAPTER I

INTRODUCTORY

Background

1.1 At the meeting of the Finance Minister with the Chief Executive Officers of the public sector banks held on the 6th March 1980, it was agreed (*i*) that the banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by 1985 ; and (*ii*) that within the overall target a significant proportion would be allocated to the beneficiaries of the 20-Point Programme. It was also decided at that meeting that the Reserve Bank of India would constitute a Working Group to consider the modalities of the above Programme.

Terms of reference

1.2 Accordingly, the Reserve Bank of India set up a Working Group, under the Chairmanship of Dr. K. S. Krishnaswamy, Deputy Governor, RBI (comprising representatives of the Government, public sector banks, RBI and ARDC as members), with the following terms of reference :

(*a*) identification of the specific groups which are to be assisted under the 20-Point Programme,

(*b*) the ways and means of rendering assistance to the beneficiaries identified under (*a*) above,

(*c*) to look into the question of fixing sub-targets (within the enhanced overall target of 40% for assistance to priority sectors) to the beneficiaries identified under (*a*) above,

(*d*) to consider whether certain types of assistance to the beneficiaries identified under (*a*) which is presently not treated as "priority sector" should be included in the "priority" category,

(*e*) to consider the modalities of evaluation of the performance of banks in lending to priority sectors, particularly under the 20-Point Programme,

(*f*) to suggest an appropriate machinery within the banks to monitor the progress of the assistance to the priority sectors, particularly under the 20-Point Programme, and

(*g*) to make any other recommendations which are incidental or related to the above terms of reference.

A copy of the Memorandum setting up the Working Group is given in Annexure I.

Procedure

1.3 The Group was expected to submit its Report by the 15th April 1980. As the time was short, the Group decided that the best possible way to deal with the terms of reference would be to bring to bear the considerable experience of the members and their executives looking after the priority sector assistance on the issues involved in Group meetings. It was also decided to invite suggestions of the other banks on the relevant issues. Accordingly, they were asked on the 13th March 1980 to send their suggestions on these issues. Besides, during the discussions at the meeting of the Finance Minister with the bankers on the 6th March 1980, banks had already given various suggestions to implement the 20-Point Programme. These and the suggestions contained in the background notes prepared by the Reserve Bank Secretariat were considered by the Group in their meetings held on the 24th March, 3rd, 10th, 17th, 18th and 22nd April 1980. The recommendations made by the Group are based on these discussions.

Other participants

1.4 Besides the members, other executives of banks, etc., participated in one or more meetings of the Group. Their names are given in Annexure II.

Scheme of the Report

1.5 The Report is divided into 7 Chapters. Besides the Introductory Chapter, Chapters II—VI deal with the following :

(*a*) Identification of the beneficiaries under the 20-Point Programme.

(*b*) Ways and means of rendering assistance to such beneficiaries.

(*c*) Modifications in the definitions of the priority sector advances - Identification of the weaker sections and fixing of sub-targets for them.

(*d*) Modalities of evaluation of the performance of banks in implementing the Programme and machinery for monitoring.

(*e*) Other related issues.

In the last Chapter, the Group has summarised its main recommendations.

Acknowledgements

1.6 The Group is grateful to the Chairmen of banks and other individuals from whose comments on the terms of reference it has benefited. Finally, the Group wishes to place on record its very sincere appreciation of the dedicated effort put in by the Secretariat under the guidance of the Member-Secretary, Shri W. S. Tambe. But for the enormous and careful work done by Shri Tambe, Shri M. L. Inasu, Joint Chief Officer, DBOD, Shri N. D. Parameswaran, Deputy Chief Officer, Smt. Usha Thorat, Shri R. J. Fernandes and other officers of the RBI, it would not have been possible for the Group to fulfil this heavy responsibility in time. The Group wishes to express its sincere thanks to all of these persons.

CHAPTER II

IDENTIFICATION OF THE BENEFICIARIES UNDER THE 20-POINT PROGRAMME

Background of the 20-Point Programme

2.1 The 20-Point Programme was announced by the Prime Minister in her address to the Nation on 1st July 1975. A list of the 20 Points is given in Annexure III. It was recognised that the banking system had a vital role to play in implementation of the Programme by providing financial assistance to its beneficiaries. In pursuance of this, the Government/RBI had issued suitable instructions to public sector banks regarding the implementation of the Programme. Thus, in January 1976, banks were advised that they

> "were expected to play an important role, among other things, in bridging the gap created in the rural credit structure following imposition of moratorium on debt recovery, in assisting the farmers who have been newly allotted lands for cultivation, in providing assistance to those released from bonded labour for taking subsidiary activities allied to agriculture, in financing minor irrigation programmes, in promoting development of handloom sector and in enlarging employment opportunities especially for the weaker sections".

They were also informed that mere formulation of the schemes would be meaningless unless benefits under these schemes reached the weaker sections of the society. It was also emphasised that there should be close co-ordination between banks and the local administrative authorities in identification of the beneficiaries and formulation of schemes for financing such identified beneficiaries. The roles to be played by the lead banks as well as the District Consultative Committees were also elaborated. In October 1976, the State Level Bankers Committees were constituted for all the States to consider problems relating to inter-bank co-ordination such as area demarcation for implementation of different schemes, allocation of the schemes being implemented at the district level, etc. Certain returns were also prescribed for the collection of quantitative data from banks regarding the progress of the implementation of the 20-Point Programme.

Fresh stress on the 20-Point Programme—President's address

2.2 The banks have continued their endeavour to assist the weaker sections of the society through the various schemes evolved under priority sector lending. It has now been decided by the Government to revitalise the 20-Point Programme. In his address to the Parliament on the 23rd January 1980, the President observed :

> "The Government is conscious of its duty to weaker sections of society. The 20-Point Economic Programme, which had proved a boon to the poor, the landless, the artisans, handloom weavers, scheduled castes, scheduled

tribes and other socially backward sections, will be revitalised and implemented in a dynamic manner."

Finance Minister's address to bankers

2.3 In his address to the bankers on the 6th March 1980, the Finance Minister also indicated the need for active participation of banks in the implementation of the 20-Point Programme. He stated :

"This programme..............focusses the nation's attention on some concrete and practical measures which have a vital bearing on the well being of the weakest sections of our society. ....a major responsibility devolves on the institutional credit structure comprising the co-operative credit institutions, commercial banks, state finance corporations and all-India public financial institutions..........

The programme is born out of our conviction that the poor need only freedom from the past shackles of exploitation and temporary help and guidance in the process of economic rehabilitation. I would, therefore, like the banks to adopt a schematic approach to the task of providing bank finance to these people. These should be economically viable schemes, with proper backward and forward linkages, provision for counselling the borrowers and a system for monitoring the working of the assisted ventures. It is only when you will adopt such an approach that you will be able to discharge your dual responsibility of assisting the borrowers and safeguarding the funds placed with you by the public in trust.

Banks, I understand, have been advised to draw up fresh credit plans. In this context I would suggest for your consideration that some of the special schemes that you will be drawing up for implementing these plans, should be tailored to suit the requirements of the various categories of borrowers that could be covered under the 20-Point Programme. Some of the State Governments also will be having separate special scheme organisations with whom the banks could fruitfully cooperate.

For an effective and co-ordinated implementation of these schemes, I would suggest a more purposeful utilisation of the existing co-ordination forums available at different levels starting from the District Consultative Committees".

Identification of beneficiaries under the 20-Point Programme

2.4 The 20-Point Programme has two main objectives : the first is to ensure efficient production and distribution of essential goods and services to the community and the second is to ensure that the income and standards of living of the weaker sections of the community are raised so as to secure better distributive justice. The banking system has to assist in the fulfilment of both these objectives.

The concept of "priority sector" lendings is mainly intended to ensure that assistance from the banking system flows in an increasing measure to those sectors of the economy which, though accounting for a significant proportion

of the national product, have not received adequate support of institutional finance in the past.

In this background, the Group addressed itself to the task of identifying those elements of the 20-Point Programme where the banking system could render assistance under the concept of "priority sector" lendings and those other aspects of the 20-Point Programme where the assistance would have to be provided outside the area of the "priority sector" assistance.

In the light of the available information and the suggestions discussed during the meetings of the Group, the Group has prepared a statement listing the various items of the 20-Point Programme and identifying the persons/organisations to be assisted by the banking system under each item (Annexure IV). The list has been divided into two parts :

Part A identifies beneficiaries who should be provided assistance under the concept of "priority sector" lending and Part B identifies the eligible borrowers who also would have to be assisted in the implementation of the 20-Point Programme, though not under the "priority sector" concept.

Some of the items included in Part B of Annexure IV, i.e., sections of the beneficiaries under the 20-Point Programme not covered under the priority sectors may have to be reclassified as "priority sector" beneficiaries in order that the benefit accruing to the priority sectors would also be extended to such beneficiaries. (This aspect has been dealt with in Chapter IV and a revised list has been drawn up—Annexure VI).

Advantages of classification

2.5 In analysing the categories of beneficiaries in the above fashion, the Group has taken into account certain advantages accruing from such a classification. They are :

(*a*) There would be uniformity in bank lendings to these categories and the banks would have clear guidance about the nature of activities which they would need to support in the implementation of the 20-Point Programme.

(*b*) By classifying the majority of borrowers eligible for financing under the 20-Point Programme in the "priority sector", priority in financing these sectors would be ensured and various concessions available to the "priority sector" would flow to these identified beneficiaries.

(*c*) The Working Group has elsewhere brought out in detail the concept of 'weaker sections' within the priority sector, wherever necessary. Since the beneficiaries of the 20-Point Programme belonging to the weaker sections have been identified in Part A of Annexure VI, it would be ensured that they would receive special attention.

State assistance in identification

2.6 The identification of borrowers in the priority sectors would require considerable assistance from State Governments. This aspect has been covered in Chapter III.

CHAPTER III

WAYS AND MEANS OF RENDERING ASSISTANCE TO THE BENEFICIARIES UNDER THE 20-POINT PROGRAMME

3.1 One of the terms of reference of the Working Group is to examine and devise ways and means of rendering assistance to the beneficiaries identified under the 20-Point Programme. The target groups have been identified earlier in Chapter II. The purposes for which these beneficiaries would require credit have also been broadly indicated therein. A more detailed analysis of the ways and means of rendering assistance by banks to the beneficiaries is made in the following paragraphs.

Allottees of surplus land under land reforms (Point 2)

3.2 Under the various land reform measures including the fixation of ceiling on existing land holdings and the conferment of occupancy rights on the tenants, a large number of new small holders having occupancy rights in land have come into being. Out of about 2 million hectares of land declared surplus, only about 25% seem to have been distributed, which means additional small farmers would need to be assisted when the remaining surplus land is also distributed. All such farmers would belong to the poorer groups and generally to backward classes. While they would be allotted an important asset, *viz.*, land, they would lack other means of production including bullocks and implements necessary for agricultural operations. In their case, credit would be thus required for production as well as for capital assets.

Identification of such beneficiaries is likely to pose some problems. Since the number of such farmers would be large and they would be spread over different villages, it would be difficult for the staff of local branches of banks to identify them. The State Governments have an important role to play in this regard and they would have to devise suitable means for their identification and for establishing their land rights which would facilitate grant of finance by banks and other institutions. A certificate of allotment by the State Government should be considered adequate for provision of bank and other institutional finance. The assistance of local technical staff under the Government machinery would also be required for preparing bankable schemes not only for agricultural but also for allied activities like dairy, poultry, etc., which would have to be undertaken by such beneficiaries to supplement their income from agriculture. Another important contribution by the State Government would be in ensuring that the requisite inputs of the right type are available in time. Training and marketing support would also be required.

Allottees of house sites (Point 3)

3.3 The step envisaged under Point 3 in the 20-Point Programme is to give house sites to the landless labourers and weaker sections to put up their own houses. Many States have already acted in this direction and the list of such allottees would be available with the local officials of Revenue/Backward Classes/Social Welfare Departments. Most of such allottees, particularly in rural areas, would be able to build the houses with their own labour without much extra cost. Nevertheless, some housing material may have to be purchased by the allottees and

for this purpose, they may require loans from banks. As housing loans would not generate any income for repayment of such loans, banks may have to ensure that such loans are granted in conjunction with loans for some viable productive activity unless the borrower already has adequate repayment capacity.

In this case also, the concerned officials of the State Government can furnish a list of such allottees to the local banks. Loan assistance to these allottees would be further facilitated if such allottee is given a certificate or some other identification by the State Government authorities.

Where a number of allottees have been granted house sites in the same location, it may be possible and desirable to encourage group efforts for house construction with a view to ensuring economies in procurement of building materials, construction, etc. In such cases banks may find it convenient to extend loans on a group guarantee basis.

Such group guarantees may also be resorted to when the total institutional loan assistance (inclusive of housing loans) per individual belonging to a homogenous economic group exceeds Rs. 5000/- per borrower and where furnishing of third party guarantees may be impracticable for the borrowers concerned.

Liquidation of rural indebtedness in respect of landless labourers, small farmers and artisans (Point 5)

3.4 In pursuance of the 20-Point Programme, the Central Government suggested to the State Governments that all non-institutional debts of cultivators holding land upto 2.5 acres of unirrigated land should be totally liquidated and those of cultivators holding between 2.5 and 5.0 acres of land should be scaled down. This benefit was also to be given to landless agricultural labourers, rural artisans and other weaker sections whose annual income did not exceed Rs. 2400/-. Almost all the States have taken action relating to the liquidation of/moratorium on rural indebtedness. Follow-up action in such cases is required to bridge the credit gap in respect of these groups. Most of the borrowing of these groups would be for consumption purposes. The data available from the All-India Debt and Investment Survey, 1971-72, reveal that the household expenditure accounted for 85 per cent of the debt outstanding per average agricultural labour household, the corresponding proportion being about 64 per cent in the case of rural artisans.

Early in 1976, the Sivaraman Committee which looked into the consumption credit needs of small borrowers, recommended arrangements for consumption loans as indicated below :

Purpose	*Maximum limit per family per year (Rs.)*
Medical expenses	250.00
Educational needs	100.00
Marriage ceremony	250.00
Funerals/births, etc.	75.00
Religious ceremonies	75.00

Following this recommendation, various steps were taken. The RBI on its part issued guidelines to commercial banks and RRBs for implementation of the recommendation made by the Sivaraman Committee. It suggested that the total credit for two or more purposes enumerated above should not exceed Rs. 500/- per family per year. Though the purpose-wise ceilings do not apply to jewellery loans, it was suggested that such a loan should not exceed Rs. 1000/- per family. Subject to the condition that a consumption loan is given as an integral part of production credit, DICGC has given coverage for consumption loans (medical and marriage : Rs. 250/-, educational expenses : Rs. 100/- and other expenses : Rs. 75/-) granted after October 1, 1976. The Government also took steps to create a Risk Fund for pure consumption loans.

In so far as production finance is concerned, the banks should have no difficulty in advancing loans to the beneficiaries of the debt relief measures, particularly as further progress has since been made in the establishment of RRBs and scope as well as the quantum of the DRI loans has also been enlarged. However, the following points have to be kept in view while assisting this group of beneficiaries:

(*a*) As in the case of other beneficiaries, here too the problem of identification of these beneficiaries has to be tackled with the assistance of Government. If a certificate or a pass book is issued to each such beneficiary by the State Government authorities, the banks can proceed further with greater speed.

(*b*) These beneficiaries cannot be expected to provide any security for the assistance provided to them other than their own personal one, or a group guarantee or the security of the assets which may be created with the help of bank assistance. Even at present, the instructions issued by the RBI (in pursuance of the recommendations of the Working Group on simplification of application forms and lending procedures in the banks for loans to agriculture and allied activities) stipulate that the banks should not insist on third party guarantees or securities other than the three mentioned above for assistance of less than Rs. 5000/- per borrower for agricultural and allied activities. In the case of the category of beneficiaries under discussion, these instructions are of special relevance and need to be strictly adhered to not only in respect of advances for agricultural purposes but also for all types of assistance rendered to them (There would be no change in respect of artisans, cottage and village industries and the tiny sector who at present enjoy the facility of getting advances upto Rs. 25000 without being asked to give any security other than personal or group guarantee besides hypothecation of assets created with bank assistance).

It is also necessary that assistance to such beneficiaries is provided after a good evaluation of the viability of the activity, because it would be counter productive if they suffer a set-back in the initial stages of rehabilitation.

In many cases, it will be beneficial and indeed in some cases necessary that these beneficiaries take up economic activities as a group, as this may enable them to better organise common services in the matter of input procurement and marketing. Banks could assist the beneficiaries in this direction if they were to extend loans to members of such groups (which may initially be informal, rather than formal), on a group guarantee basis.

(*c*) Assistance to the identified beneficiaries should enable them to carry on existing activities and/or to engage themselves in any gainful occupation. It would require considerable effort on the part of the banks in conjuction with State Government authorities/agencies to prepare bankable schemes for such beneficiaries and extend necessary credit to them. As pure consumption loans in isolation may not achieve the objective of rehabilitation of such groups, consumption loans may be granted to them either as part of production credit or in addition to production credit.

Released bonded labourers (Point 4)

3.5 Through the promulgation of Bonded Labour System (Abolition) Ordinance, 1975, and the subsequent Act passed in the Parliament, the system of bonded labour was made illegal and the bonded labourers were released from any obligation relating to debt. It was also stipulated that the bonded labourer thus freed from bondage would not be evicted from his homestead/land. The system of bonded labour is mainly found in States of Karnataka, Andhra Pradesh, Orissa and Bihar. However, exact information regarding the implementation of these measures is not available. According to the answer given in the Parliament on March 13,1980, the State Governments have so far identified about 1.20 lakh bonded labourers, of whom about 89,000 have been covered for rehabilitation up to 1979-80. Out of the identified bonded labourers, the largest number of 62,689 were in Karnataka, 27,828 in Tamil Nadu and 12,504 in Andhra Pradesh.

Rehabilitation and assistance to released labourers through bank loans would require an innovative approach on the part of banks because in most cases they would have hardly any assets of their own. Such labourers, therefore, may have to be assisted to start allied activities such as dairying, poultry, sheep-breeding, etc., and other self-employment schemes, and to get increased employment through agricultural labour. Such persons can thus be assisted by loans to undertake bullock/camel cart transport, etc. By now, banks have considerable experience in helping the village households directly or through functional societies in taking up allied activities. Such assistance would have to be on an integrated basis so that input arrangements as well as marketing of output are properly looked after and this would require close collaboration between the banks and other promotional agencies. However, in many cases, these released labourers are likely to be scattered. In view of this, it may be desirable to treat them as part of an overall area plan where, they, along with others belonging to the weaker sections, are assisted in taking up various activities.

The above would call for considerable spadework on the part of Block Development Officers, particularly in identifying such labourers in their respective blocks, and in preparation of bankable schemes for assistance to these beneficiaries. Once this is done, the banks can follow up to make loan arrangements. As in the case of others, the identification of these beneficiaries has to be facilitated by the Government machinery.

Handloom weavers (Point 9)

3.6 The reference to handloom weavers in point 9 is to ensure that adequate steps are being taken to rehabilitate handloom industry and to improve the lot of the weavers. Some handloom weavers are also likely to be covered under Point 5 for relief from indebtedness.

There are about one crore weavers with 40 lakh handlooms in India. About 40% of weavers are now under the fold of co-operatives but still there are a large number of weavers who require direct assistance. Under the handloom development programme, a large amount is expected to be provided by the financial institutions.

While the banks have been financing the handloom weavers directly, or with the assistance of District Industries Centres and all-India bodies like the Handloom Board and KVIC, the real problem would seem to be one of regular and increasing access to markets, both rural and urban. This may, inter alia, involve improvements in production techniques, design etc. While in some States, significant progress has been made in bringing these weavers into the co-operative fold and in providing them assistance through the co-operative channels, the position elsewhere is not very encouraging.

In this context, the Group notes that the Study Group to review the financing of the handloom weavers outside the co-operative fold has come to the conclusion that considering the large number of handloom weavers spread all over the country, the quantum of finance made available to them by banks is very insignificant. The Group has estimated the requirements of funds in this sector to range between Rs. 362 crores and Rs. 454 crores over the period 1978-83. Considering the existing level of credit of about Rs. 13 crores extended to this sector by the commercial banks, it is clear that sustained and concerted efforts have to be made by all concerned to achieve this increased coverage. The Study Group has also, inter alia, made certain recommendations regarding the role to be played by the Handloom Development Corporations in marketing. The recommendations of the Study Group are under process and the decisions taken on the recommendations of the Group should give a clear indication of the efforts required by banks in extending financial assistance to the handloom weavers.

The Group also notes that the RBI has already advised banks that financial assistance extended to KVIC and other State-sponsored institutions exclusively set up for rural artisans and village and cottage industries for the purpose of supplying inputs to/ marketing of the products of these sectors may be treated as priority sector advances. This should also help banks in providing integrated assistance to the handloom weavers.

Assistance through intermediary organisations

3.7 The number of beneficiaries under the 20-Point Programme requiring bank assistance would be very large and spread throughout the country, mostly in rural areas. Similarly, the number of such beneficiaries falling within the priority sector would also be large.

It has to be recognised that even when adequate institutional credit is made available to such persons, their scale of production will necessarily be small and their ability to withstand individually the market uncertainties would at the best be limited. While this would be particularly true of persons who would be engaged in non-farm activities, a similar situation may also obtain in the case of small and marginal farmers who are encouraged to engage in intensive cultivation of market crops such as vegetables or to engage in allied activities to supplement

their income. Their economic problems over any length of time can only be solved if they organise their activities as a group whereby they can improve their market strength as also arrange for common facilities and support on a joint basis.

The commercial banks even with the existing and future net-work of the branches, particularly in rural and semi-urban areas, may not also be in a position to cater to the needs of such a large number of borrowers, as a substantial portion of them may still be outside the area of operation of these branches. The co-operatives and the RRBs can certainly extend assistance to these sub-sectors. However, considering the magnitude of the assistance required, the Group considered the question whether the beneficiaries under the 20-Point Programme and 'weaker sectors' in the priority sectors could be organised into societies/ groups who could be financed by the banks and whether banks could extend assistance through intermediary organisations. A good method of organising such groups may be to form FSS or LAMPS or other functional societies which can be assisted by banks even though such societies may not entirely fall within the normal area of operation of such bank branches. In forming such functional societies care will however have to be taken in consultation with the Co-operation Department to ensure that this does not have any adverse impact on the existing co-operative structure. Another approach could be for the State Governments to form corporations/agencies to cater exclusively to the beneficiaries under the 20-Point Programme or the 'weaker sectors' in the various categories of borrowers.

There are a number of advantages in arranging for credit through such intermediaries: (1) Intermediary organisations would be in a position to arrange for integrated assistance to the beneficiaries and not merely credit. (2) This would ensure proper supervision of the production effort of the beneficiaries and assist in the removal of any bottlenecks. (3) Such an approach would encourage joint effort by beneficiaries whose individual scale of production is very small and whose competitive position can only be improved by a group effort. (4) It would enable the extension of institutional finance to borrowers who do not fall strictly within the area of operation of bank branches and are not, therefore, able to seek bank assistance on an individual basis. (5) Identification of eligible borrowers would be facilitated. (6) Recovery of bank dues could also be expected to improve and the operational cost of financing and monitoring a large number of borrowers could be reduced.

The main disadvantage may be that DICGC cover will not be available as at present. The Group is of the view that it would be advantageous if such a cover is provided. However, a Committee appointed by the Corporation is going into this question.

Considering the various aspects, the Group recommends that banks, while continuing to provide direct assistance, may also route credit to individual beneficiaries through State-sponsored corporations/agencies besides functional co-operatives. However, it would be necessary for banks to stipulate certain specific conditions as under :

(*i*) The corporations/agencies should cater exclusively to the 'weaker sections'

of the society in the various categories of priority sector ; or the specific scheme financed by banks through such corporations/agencies should be exclusively for the benefit of such 'weaker sections'.

(*ii*) They should have the necessary organisational set-up/expertise/staff for supervising field operations and recovery, since these would not be directly supervised by banks.

(*iii*) The corporations/agencies should furnish to the banks full details of these schemes which may either be area-specific or activity-specific. The schemes must contain details of number of beneficiaries, purpose of advances, amount of advances, economic status of the beneficiaries, the cost/benefit analysis, etc., to the satisfaction of the banks. The banks should provide assistance only on such schematic basis.

(*iv*) The corporations/agencies should furnish periodical statements indicating the details of the loans given, purpose, etc., as well as progress of recovery.

(*v*) Corporations/agencies should have their own resources for meeting their administrative expenditure as well as for non-bankable supporting activities for the beneficiaries, or for covering operational losses.

(*vi*) The terms and conditions including rates of interest stipulated by the corporations/agencies to the beneficiaries should not be less favourable than those stipulated for direct lending by banks.

(*vii*) The State Governments should institute a regular system of periodical auditing of the books and accounts of the corporations/agencies.

Advances through such intermediaries, which may include Corporations, Co-operatives, Registerered Societies, etc., have to be necessarily considered as part of the "priority sector" assistance. Depending upon the type of borrowers covered, these advances may be classified as 'indirect advances' to the concerned sectors.

While in the foregoing paragraphs the Group has discussed the advantages which can accrue by making use of intermediary organisations as conduits for institutional finance and the terms and conditions on which this would be feasible, it is also necessary that the banks organise periodical field inspections and visits to ensure that the schemes so financed are being executed on proper lines. It would also be necessary for the banks to provide some measure of concessionality in the terms on which they lend to such organisations for purposes of on-lending.

The arrangements which the banks enter into with such intermediary organisations have primarily to be on the basis of fulfilment of their respective obligations and functions which have been outlined above. It has, however, to be recognised that many developmental schemes can be successfully implemented only if the State Government agencies also provide the necessary support, both financial and administrative, to the intermediary organisations and/or the

beneficiaries. The banks may, therefore, have to seek reasonable undertakings from the State Governments for provision of such support. These undertakings could be by way of agreement to take certain specific steps or in the shape of financial guarantees, depending on the circumstances.

In the limited time available to the Group, the Group had only been able to sketch the broad outlines of this approach. Obviously, it is necessary to ensure that such intermediary organisations are cost effective and are able to develop the initiative of the beneficiaries themselves to organise into productive groups/ functional societies. The Group however feels that both the banking system as also the State Governmental agencies have to make very special efforts to organise the economic activities of the weaker sections on these lines, because in an integrated socio-economic structure it is very necessary that the strength of the economically weaker sections to relate with other sections of the society is improved so that their exploitation is progressively eliminated.

The Group is aware that it is not stating anything new in emphasising this aspect; the continuous efforts of the last several decades to encourage the growth of co-operatives is a reflection of this awareness. However, it cannot also be gainsaid that the progress made so far has been uneven, and even in the co-operatives the weaker sections of the community have not benefited in the desired measure. Perhaps the one lesson which can be drawn from the past experience is that it is not possible to have a uniform prescription to overcome this very basic problem for the entire country. The State Governments and the banks will have to innovate approaches which are appropriate to the beneficiary groups and the local situations. All that can be urged at this stage is the need for shaping our developmental strategy for the weaker sections, constantly keeping this fundamental requirement in view.

Assistance by State Governments

3.8 Supportive action on the part of the State Government is vital to facilitate bank assistance for the beneficiaries under the 20-Point Programme. The main areas in which State Government assistance is called for relate to—

(*a*) identification of borrowers, particularly under the 20-Point Programme and issue of certified documents like passbooks or identity books,

(*b*) provision of infrastructural facilities,

(*c*) technical support in preparation and implementation of bankable schemes and/or techno-economic surveys,

(*d*) provision of necessary inputs to the beneficiaries assisted by banks and assistance in marketing the products, particularly on the lines of the approach suggested above in paragraph 3.7,

(*e*) providing financial guarantees or undertakings to take specific steps, as indicated in paragraph 3.7,

(*f*) assistance for recovery of overdues,

(*g*) arrangements for imparting training to the beneficiaries for the development of skills in various activities in which they are engaged and for which bank finance is provided, and

(*h*) the Group is of the view that State Government officials particularly at the district and the block level involved in the preparation of bankable schemes should have a better appreciation of and training in preparation of such proposals and in financial cost/benefit analysis. The Group recommends that the Government and the Reserve Bank of India may review the present arrangements and facilities for training of State Government officials in this area and suitably enlarge such facilities. Combined courses for bank and State Government officials are already being held to promote a better appreciation of the overall parameters within which bankable schemes are to be prepared ; such courses should be increased and be made more frequent.

Concerted action on the above points by the State Governments would help the banks in increasing assistance to the borrowers in the weaker sections, more particularly the beneficiaries under the 20-Point Programme to an appreciable extent.

State Government assistance in recovery of loans.

3.9 The Group considered in this context the mounting overdues in bank loans to priority sectors. While in the ultimate analysis, the recovery performance would largely depend upon the effectiveness of the measures which banks themselves take in this direction like strengthening and gearing up of the organisational structure, both at the controlling office and field level, schematic approach to lending, supervision and follow-up, the actual involvement of the State Governments in the recovery of bank advances would also go a long way in improving the recovery position. Such support of the State Government and active involvement of the revenue and developmental staff in the field, the Group feels, should be made available to the commercial banks. Certain States have not so far enacted legislation for speedy recovery of agricultural dues on the lines recommended by the Talwar Committee. Further, even though the Acts have been passed, some of the State Governments are yet to frame rules thereunder and create the necessary supporting machinery. The Group would urge that State Governments, which have not passed the legislation should do so at an early date and also take necessary steps to put into operation the requisite machinery for enabling the banks to avail of the legislative provisions.

While the above steps would help the recovery of agricultural dues, the Group feels that since the commercial banks, particularly in the rural and semi-urban areas, would also be lending to a significant extent to the rural artisans, village and cottage industries, it is necessary that State Governments initiate measures to help banks for speedy recovery of the dues from the borrowers in these sectors also. It would be in the common interest of the banks and the State Governments to see that appropriate staff are provided to assist speedy recovery of bank dues. Unless the loans are properly recycled, the

ability of banks to provide additional finance to these sectors would be impaired. As paucity of funds is one of the reasons adduced for not finding the required staff for recovery of bank dues, the Group recommends that the banks which derive substantial benefits from the recovery of these dues in time, should share the financial burden of the State Governments in the maintenance of such additional staff. The Group also feels that the involvement of Senior State Government Officials in monitoring recovery of bank dues would go a long way in the timely recovery of these dues.

The UP Government, it is reported, has enacted the UP Public Money (Recovery of Dues) Act, which provides for recovery of bank loans under State-sponsored schemes as if they were arrears of land revenue. The Act provides for the Government to notify any scheme of financial assistance by a banking company or a Government company to be declared a State-sponsored Scheme. Certain other State Governments have also initiated certain legislative measures in this regard. The Group recommends that the Reserve Bank may by itself or through the IBA or through a Committee appointed for the purpose, look into such legislative provisions and consider the question of evolving uniform measures which could be initiated by the State Governments for recovery of bank loans, particularly in rural and semi-urban areas. Based on the findings thereof, the Reserve Bank and the Central Government could move the State Governments to take necessary steps.

Follow-up by banks

3.10 Detailed guidelines have been issued to banks for the preparation of District Credit Plans in March 1979. It has been indicated in the guidelines that since the emphasis now is on the block level planning, DCP work has to be taken up on a block-wise basis. While preparing the credit plan as well as annual action plan, the banks have been advised to make detailed estimates of the credit requirements for agriculture and crop loans including a separate estimate for marginal and small farmers, irrigation loans, land development loans, forestry development, godown and storage loans and others. Similarly, detailed estimates are to be made of advances to allied activities under dairy, poultry, fishery, sericulture, etc., rural and cottage industries, handlooms, village oil ghani, leather workers, wood workers, metal workers, khadi, household processing units, coir workers, gur making, etc. The beneficiaries under the 20-Point Programme fall in one or the other of the categories indicated in the guidelines. The District Credit Plans should, therefore, provide for assistance to such beneficiaries. As the identification of such beneficiaries progresses, they should be given due consideration for assistance within the framework of the Action Plan for 1980. The Action Plans for 1981-82 should explicitly provide for the assistance to the beneficiaries under the 20-Point Programme. It would also be necessary for individual banks to integrate such assistance in the branch budgets as well as the overall budgets. If a comprehensive list of the beneficiaries under the 20-Point Programme, more particularly list of allottees of surplus land, allottees of house sites and those released from bonded labour/given debt relief is made available by State Governments, it may be possible for the banks to indicate separately the credit requirements of the beneficiaries under the various heads in the District Credit Plans. The State Government authorities, particularly at the district and block level, would have to assist the commercial banks in integrating the 20-Point Programme beneficiaries under the District Credit Plans.

Staff Support

3.11 Assistance to the weaker sections of the priority sectors, more particularly the beneficiaries under the 20-Point Programme would be provided mostly by the rural and semi-urban branches of banks. Considering the dimensions of the task involved, banks should review the staff deployment at such centres in order to ensure smooth flow of credit to these sectors. In particular, banks should see that these centres have easy access to the services of the technical staff maintained by the banks as well as by the State Governments.

Co-ordination/ review

3.12 Since a high level of co-ordination between the financing agencies and the Government authorities is required for the proper implementation of the 20-Point Programme by banks, it would be necessary to have an adequate machinery for securing co-ordination at different levels. Without the joint efforts of the State Government authorities at the State and district as well as block level and the commercial banks, the process of economic rehabilitation of the beneficiaries of the Programme is likely to be hindered. Such forums for co-ordination, however, exist at the district level in the form of District Consultative Committees which have been revitalised of late. Similarly, at the State level, there are State Level Bankers Committees with one of the public sector banks as convenor and in several States there are also State Level Co-ordination Committees set up by the State Governments and which include representatives of the commercial banks and other financial agencies. It would be desirable if SLCCs are formed in all States. The Group does not, therefore, think it necessary to provide for any additional forum for the purpose of ensuring co-ordination and the existing forums could be utilised for the purpose. It is, however, necessary that such Committees meet regularly at least at quarterly intervals. Bank assistance to the beneficiaries under the Programme could be specifically discussed at these forums.

CHAPTER IV

MODIFICATIONS IN THE DEFINITIONS OF THE PRIORITY SECTORS — IDENTIFICATION OF THE WEAKER SECTIONS AND THE FIXING OF SEPARATE SUB-TARGETS FOR THEM

Introductory

4.1 In Chapter II the Group has indicated how the beneficiaries under the 20-Point Programme and the purposes for which they would require finance would generally fall within the priority sector advances of banks which are proposed to be stepped up from the current level of $33\frac{1}{3}\%$ to 40% of the total advances. In this Chapter the Group proposes to examine certain anomalies that have crept into the priority sector lending and how to rationalise the system so that assistance under the 20-Point Programme can be dovetailed into the modified priority sector lending.

Priority sector lending—historical background

4.2 One of the objectives of social control over banks and subsequent nationalisation of the major banks was to ensure that credit was channelled to various sectors of the economy in accordance with the national planning priorities. This, *inter alia*, implied flow of credit to sectors which were hitherto neglected. At the second meeting of the National Credit Council held at New Delhi on July 24, 1968 it was emphasized that commercial banks should increase their involvement in the financing of two priority sectors, namely, agriculture and small scale industries as a matter of urgency. In that context, a list indicating the types of agricultural advances which would qualify for purposes of compliance with the targets set by the National Credit Council was prepared and forwarded to banks in March 1969. As regards small scale industries, no separate guidelines were issued, but it was indicated that direct loans given to road transport operators, including operators of taxis and auto-rickshaws (original book value of whose investment is less than Rs. 7.5 lakhs) would also qualify for purposes of compliance with the targets set by the National Credit Council. Similarly, it was advised that loans for setting up industrial estates would also qualify for such compliance.

Formalisation of the description of the priority sectors

4.3 The description of the priority sectors was formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. In the light of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection on the 1st February 1972, indicating the scope of the items to be included under the various categories of priority sectors. In most of these cases, these guidelines indicated only the general description of the advances to be included under these categories and no qualifying ceilings were fixed, say, for instance, on the quantum of advances or on the turnover of the unit financed, except in the case of small scale industry and road and water transport operators where ceilings on the value of original investments were indicated.

4.4 During the discussions of the Group, it transpired that although the priority sector advances are being classified by banks generally in accordance with the instructions issued by the Reserve Bank in February, 1972, there is still some lack of uniformity in such classification, particularly in respect of retail trade and transport operators. Some banks include in this category only those advances which are covered by DICGC definition, while others classify all such advances which satisfy the general descriptions of such categories given in the guidelines of the Reserve Bank of India referred to above and/or those given in the DICGC definitions, without however taking into consideration the ceilings fixed by DICGC for such categories in respect of their turnover, cost of original investment, quantum of advances, etc., for guarantee cover. As the performance of banks *inter se* in the matter of advances to the priority sectors is often compared, a lack of uniformity in the classification of the data would obviously vitiate such comparison. Moreover, banks are required to comply with certain targets in regard to the deployment of credit to the priority sectors. The assessment of such compliance with the targets would also be a meaningless exercise, unless the data are compiled on a uniform basis. The need for uniformity in the items reported under priority sector lendings is thus obvious.

Need for uniformity in definitions

4.5 As the guidelines issued by the Reserve Bank of India did not specify any ceilings on limits, the finance extended by banks to the more affluent sectors within the priority sectors is also included under these categories. Justified as this approach might have been in the initial stages, the Group feels that a time has come when a new direction is to be given to banks' advances to these sectors. There is a need to ensure that bank advances within these sectors are given increasingly to the comparatively weaker and more under-privileged sections. Taking all these factors into account, the Group feels that certain modifications to the existing definitions of "priority sector" advances are necessary. At the same time, in order to ensure that the more under-privileged sections in these sectors are given proper attention by banks in the matter of advances, the Group considers it necessary to introduce the concept of a sub-sector within the two main priority sectors, *viz.*, agriculture and small scale industries, to focus the attention of the banks on the need to give increasing finance to such sub-sectors. For the sake of clarity, it is suggested that the use of the term 'Priority Sector' should be restricted to the aggregate priority sector (which is at present being denominated at times also as 'weaker sector', 'hitherto neglected sector', etc.). The sub-sectors comprising the more under-privileged in this main group of priority sectors will be known as 'weaker section'.

Weaker sections in priority sectors

4.6 The 'weaker section' in the priority sector would mean the under-privileged sections of the society. Their weakness may be either financial or social *e.g.*, scheduled castes and scheduled tribes. These socially weaker sections of society are also as a class, financially weak and besides, suffer from a lack of bargaining power and articulation in getting their grievances met. In addition, as already stated in Chapter II, the beneficiaries under the 20-Point Programme who have been identified by the Group primarily belong to such weaker sections. By introducing a separate sub-sector for such weaker sections within the priority sector, the Group feels that the objectives of the 20-Point Programme would be met effectively.

Need for defining weaker sectors in the context of the 20-Point Programme

4.7 The priority sectors at present enjoy certain advantages. In the first instance, they get preference over others in the matter of credit allocations. Secondly, banks normally give various concessions in the terms and conditions, including rate of interest, margin, etc., in respect of such priority sectors. The Reserve Bank has prescribed certain maximum lending rates, much below the lending rates on traditional advances, for some of the "priority sector" advances. The minimum rate of interest is also not applicable to such advances within specified ceilings. There are relaxations in the procedural formalities, including application forms, in granting such advances. Thus, the inclusion of a particular category in the priority sector confers certain specific advantages to the borrowers not only in the matter of availability of credit but also in the terms and conditions on which such credit is made available. It is the considered opinion of the Group that if the concept of the "weaker sections" in the priority sectors is accepted, the concessions that are being offered to the priority sectors as a class could be oriented to meet the needs of the weaker sections. The Group expects that the banks would continue to give a preferential treatment to the other groups in the priority sectors, compared with the advances to the traditional sectors, but the maximum benefit of all types of concessions should be invariably available to the weaker sectors, identified by the Group and defined in the subsequent paragraphs.

Need for concessions to weaker sections

4.8 At present the priority sectors include :

(1) Agriculture :
   (*a*) Direct finance
   (*b*) Indirect finance

(2) Small scale industries

(3) Industrial estates

(4) Road and water transport operators

(5) Retail trade and small business

(6) Professionals and self-employed persons

(7) Education

(8) Advances to export :
   (*a*) Pre-shipment finance
   (*b*) Post-shipment finance

For the purpose of the target of $33\frac{1}{3}\%$ advances for exports other than those given to small scale industries, are excluded. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of $33\frac{1}{3}\%$ by March 1979. A summarised statement showing the sectoral distribution of advances under the priority sectors as at the end of

June 1979 is given below :

Sector	*Amount (crores of Rs.)*	*% to total priority sector advances*
Agriculture	2221	42.6
Small scale industry	2061	39.6
Others	927	17.8
	5209	100.0

Thus, more than 80 per cent of the priority sector advances are accounted for by agriculture and small scale industries. This would be more or less the position by 1985 also. For all practical purposes, therefore, the need for identifying the weaker sections assumes importance only in these two categories. The other categories of priority sectors account for only less than 20 per cent of the priority sector advances and 6 per cent of the total advances. "Others" includes advances to items (3) to (7) above, and it will be impractical to set sub-sectoral targets for these items. Moreover, as discussed in detail below, the definitions of what ought to constitute "priority sector" advances for items (4), (5) and (6) are themselves proposed to be made more specific so as to include only the smaller advances. The recommendations in the succeeding paragraphs are based on these considerations.

Advances to agriculture

4.9 Advances to the agricultural sector at present account for about 14 per cent of the total advances. The Sub-Working Group under the Working Group on Rural Credit and Co-operation as also the Sub-Group on Private Saving and Investment under Planning Commission constituted by Government of India have made the following projections regarding the agricultural credit of commercial banks.

(*i*) *Sub-Working Group on Agricultural Credit (under the Working Group on Rural Credit and Co-operation) :*

(Rs. in crores)

	March				
	1979	1980	1981	1982	1983
Total advances ..	17940	21216	25459	30532	36639
Agriculture	2150 (12%)	2865 (13.5%)	3565 (14%)	4580 (15%)	6000 (16.3%)

(*ii*) *Sub-Group on Private Saving and Investment* (*as at the end of March*) :

(Rs. in crores)

	Estimated	Forecasts			
	1979	1980	1981	1982	1983
Advances to Agriculture	2340	3150	4010	4900	5875

The projections made by both the Sub-Groups indicate that it would be possible for the banks to step up their ratio of credit to agriculture to 16% by 1983. An examination of the public sector banks' performance during the last three years, *viz.*, 1976, 1977 and 1978 reveals that the ratio of the banks' total agricultural advances to their total advances is going up every year by one per cent point. In all probability this trend would be maintained by them. The main reasons supporting the assumption are that banks would be participating actively in the implementation of the Integrated Rural Development Programme for which instructions have been issued to them by Government and that they would be increasing the number of branches in rural and semi-urban areas and raising the level of credit-deposit ratio of these branches. It should, therefore, be possible for them to step up their credit to agriculture to the level of 16% by 1983 and go beyond this level by 1985.

The Group considered in this context whether it was necessary to fix any separate sectoral percentage targets for the different priority sectors. As the banks have varying geographical coverage and different clientele groups, sub-allocation of the overall target of 40 per cent for priority sectors for each category of priority sectors on a uniform basis would not be logical or feasible. The Group, therefore, felt that there was no case for fixing any inflexible sub-targets for each of the categories under the priority sectors. At the same time, there was a feeling that as agriculture occupies a predominant position in the national economy and has to be the keystone in any programmes of rural development, it would not be inappropriate to fix at least a minimum percentage target for the agricultural sector within the priority sectors. This was also considered necessary as the performance of banks in the matter of advances to the agricultural sector varied substantially from 8 to 28 per cent of the total advances. The Group felt that it would be desirable to fix a minimum percentage for the agricultural sector so long as it is recognised that this limit would be only a minimum and would not place an embargo on banks to step it up further, if its operational strategies and the potential of the area of its activities warranted such an increase. As the public sector banks have adequate coverage in the rural and semi-urban areas, there should not be any difficulty for them in complying with such a stipulation. On the basis of the past performance, the Group feels that out of the advances to the priority sector at least 40 per cent should be extended to the agricultural sector, by each bank. As the priority sector advances would account for 40 per cent of the total advances by 1985, this would mean that the advances to the agricultural sector would be at least 16 per cent of the total advances. For the banking

system as a whole this would not be a difficult task, as according to the current rate of growth of agricultural advances, the advances to this sector would exceed 16 per cent of total advances by 1985. In the case of some banks, this would no doubt present some challenges; in the overall interest of the economy it is however necessary that such a minimum should be prescribed for all the public sector banks.

The Group then considered whether there was a need for identifying a separate 'weaker section' in the agricultural sector. Advances to this sector presently include not only advances to the smaller borrowers but also to the more affluent and larger borrowers in this sector. At present there are instructions to banks that 50 per cent of the direct advances for agricultural operations should go to the small and marginal farmers and landless labourers by March 1983. The small and marginal farmers would include all agriculturists whose land holdings do not exceed 5 acres as well as landless labourers.*The Group feels that this sub-target of 50% for the small and marginal farmers and landless labourers for direct advances may continue. At present the percentage of the advances to the small and marginal farmers and landless labourers (hereafter called the 'weaker section' in the agricultural sector) is about 37 per cent of the total direct lendings in the agricultural sector. It is proposed that by March 1983, the banks should increase this percentage to 50.

Another question that the Group considered in this context was whether the allied activities like dairy, poultry farming, piggery, etc., should be included under the 'weaker section' in agriculture. The general opinion was that the finance for allied activities was normally given to small and marginal farmers as well as the landless labourers to make them economically viable. Although it was quite possible that a part of such advances for allied activities might have gone to the affluent sections, by and large the banks were of the opinion that the bulk of such advances would have been extended to the weaker sections in the agricultural sector. By excluding this item for the target of 50 per cent of direct advances to the 'weaker section', the Group feels that the accent on giving such advances to the weaker sections would be lost. The banks would not give adequate attention to such advances as they would be concentrating on purely agricultural activities in order to comply with the target. This would not be desirable. In order to avoid this contingency, the Group feels that the advances to the weaker sections in agriculture should include the advances for other allied activities also for the purpose of compliance with the target of 50 per cent of the direct advances to agriculture (including allied activities) to the weaker sections. This would also go a long way in focussing the attention of banks on the need to give assistance to the beneficiaries under the 20-Point Programme. In order to avoid the inclusion of the more affluent sections financed under other allied activities from the sub-target for weaker sections, the Group considered various alternatives. In the DICGC Scheme, there are provisions limiting the liability of the Guarantee Corporation under various items of allied activities to specific amounts. As these

*The Group notes that there are different definitions of the "small farmer" adopted by various agencies (some of which take into account the criterion of income) and that a Committee under the Chairmanship of Deputy Governor (Shri Ramakrishnayya) is looking into the question of evolving a uniform definition of "small farmer". The Group has adopted here the definition indicated above, which is convenient for reporting purposes. In case the definition of "small farmer" is altered it will obviously be necessary to review the relative sub-target as well as the reporting procedure.

amounts differ from category to category, the Group felt that for reporting purposes these limits would not be suitable.

The unit cost of investment under ARDC schemes for allied activities generally falls within Rs. 10,000 as shown below :

Type of activity	*Cost of a minimum viable unit*
1. Dairy farming	Between Rs. 3800 and Rs. 8000
2. Sheep breeding, goat rearing, piggery, work bullocks, animal driven carts..	Between Rs. 1500 and Rs. 3100
3. Poultry for 50 to 100 birds	Between Rs. 4500 and Rs. 9000
4. Inland fisheries and fishpond development	Rs. 10,000

The average advances under various heads of allied activities are also generally below Rs. 10,000. The Group, therefore, felt that for the purpose of identifying the weaker sections in this category it would be sufficient if a lending limit of Rs. 10,000 per borrower is fixed.

The Group has accordingly proposed that the 'weaker section' in the agricultural sector would comprise :

(*a*) Small and marginal farmers with landholdings of 5 acres or less and landless labourers.
(*b*) Persons engaged in other allied activities where borrowal limits for such activities do not exceed Rs. 10,000.

The direct advances to such weaker sections should reach a level of at least 50% of the total direct lendings under agriculture (including allied activities) by March 1983.

Small Scale Industries

4.10 According to the data as on the 30th September 1979 advances of the public sector banks to the small scale industries including advances for setting up of industrial estates constituted 38% of the total priority sector advances and 12.7% of the total advances. The number of accounts as at the end of September 1979 stood at about 7 lakhs. Since 1976 there has been an increase of 30% on an average in the number of accounts covered by the sector per year.

The definition of the small scale industry given in the instructions issued by the RBI on 1st February 1972 (as modified) is in keeping with the definition for various other purposes and does not call for any change. It is, however, necessary to ensure that agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs and those providing funds to such borrowers, as indicated in paragraph 3.7, should also be classified under priority sector. This could be done under the Small Scale Industries Sector by adding a sub-category "Indirect advances to small scale industries".

The data available indicate that the small scale industries include a wide range of units differing in size, location, quantum of limits, etc. According to the BSR data as at the end of June 1977, out of the total credit of Rs. 1,462 crores to this sector, the limit-wise distribution was as follows :

Limit	*Percentage of total credit to the sector*
Rs. 10,000 and less	3.7
Between Rs. 10,000 and Rs. 1,00,000 ..	28.5
Between Rs. 1 lakh and Rs. 1 crore	65.6
Above Rs. 1 crore	2.2
	100.0

Similar difference could also be noticed in the size of the units in terms of investments in plant and machinery.

According to the survey of small scale units (1977) conducted by the Reserve Bank of India the percentage share of the units of different sizes in institutional loans, etc., is as follows :

Size of the units in terms of investment in plant and machinery	*Distribution of units*	*Total value of output*	*Total employment*	*Institutional loans*
Less than Rs. 1 lakh	89.0	44.1	61.0	31.1
Between Rs. 1 lakh and Rs. 2 lakhs	5.0	17.3	11.7	17.2
Between Rs. 2 lakhs and Rs. 5 lakhs	3.9	18.3	12.7	22.7
Between Rs. 5 lakhs and Rs. 10 lakhs	1.8	15.1	11.8	22.5
Above Rs. 10 lakhs and upto Rs. 15 lakhs ..	0.3	5.2	2.8	6.5
	100.0	100.0	100.0	100.0

In view of the wide disparities in the size of the loans, size of investments, location of the units, etc., various Working Groups and Committees have classified

Small Scale Industries into different groups for different purposes. Thus, the Puri Committee divided Small Scale Industries into 3 groups—(A) with credit facilities below Rs. 25,000; (B) with credit facilities between Rs. 25,000 and Rs. 2 lakhs; and (C) with credit facilities of Rs. 2 lakhs and above—for standardisation of application and appraisal forms, margins, interest rates etc. for the different categories. The Working Group on Small Scale Industries with special reference to District Industries Centres, (Tambe Group) divided Small Scale Industries into 3 distinct sub-sectors—(*a*) village, cottage industries and artisans ; (*b*) tiny small scale industries to be set up in rural and semi-urban areas ; and (*c*) larger modern small scale industries which would be substantially urban oriented with considerable linkages with large and medium scale industries. The Working Group on the Apex Financial Institution for the Small and Decentralised Sector of Industry under the Chairmanship of Shri W. S. Tambe has also divided small scale industry into 3 major sub-sectors—(*a*) decentralised sector; (*b*) tiny sector; and (*c*) modern small scale industries. In the statement on industrial policy announced on the 23rd December 1978, the tiny sector was defined as those with investment in machinery and equipment upto Rs. 1 lakh and situated in towns with a population of less than 50,000 according to the 1971 census figures, and villages. According to the Tambe Group, a village industry has been defined as artisan (irrespective of locations) or small industrial activities, (*viz.* manufacturing, processing, preservation and servicing) in villages and small towns with a population not exceeding 50,000 involving utilisation of locally available industrial resources and/ or human skills (where individual credit requirements do not exceed Rs. 25,000).

The Group considered the various classifications of the Small Scale Industries for the purpose of identifying the weaker section in the Small Scale Industries. As the employment potential is obviously large in relation to the investment in the case of small units, the Group decided that all small scale industries with limits upto and inclusive of Rs. 25,000 should be treated as the 'weaker section' in this category. This would include almost all the artisans as well as village and cottage industries. It would also include a proportion of the tiny sector. Practically all the borrowers in this category under the 20-Point Programme identified by the Group would obviously fall under this group. The classification on these lines based on the quantum of limit rather than any other factor would also be convenient to banks for reporting purposes. On all these considerations the Group came to the conclusion that the weaker section in the small-scale sector should relate to the borrowers with limits of Rs. 25,000 and less.

At present there is no separate sub-target within the small scale industry for the weaker section. Banks are, however, required to report separately the advances to the artisans, cottage and village industries and the tiny sector. Advances to the village and cottage industries stood at Rs. 39.92 crores and those to the tiny sector at Rs. 119.07 crores as at the end of June 1979. These advances constituted 7.6% of the aggregate advances to small scale sector.

The Group considered the question of proposing sub-targets for the 'weaker section' in the small scale industries in order to ensure that the beneficiaries under the 20-Point Programme would get adequate attention from the banking industry. The total amount outstanding to artisans, village and cottage industries at the

end of June 1979 amounted to Rs. 40 crores spread over 2.70 lakhs borrowers and constituted hardly 2% of the total advances. The Group does not have any information at present on the quantum of advances given to borrowers with limits of Rs. 25,000 and less. On a rough basis it has been estimated that the advances to this group of borrowers would be around 6% of the total advances to the SSI sector. This is obviously on the low side and has to be substantially increased. The report of the Working Group on Apex Financial Institution for the Small and Decentralised Sector has indicated that the credit requirements of the artisans, rural and cottage industries would be about Rs. 2620 crores by 1982-83.

On this basis, the share of the artisans and village and cottage industries would account for the great bulk of the incremental advances to small scale industries by 1985. As, however, the advances to the 'weaker section' are at present estimated only at about 6%, the Group felt that, for the time being, the banks should at least try to double this proportion by the end of 1985. Accordingly, a sub-target of 12.5% of the total advances to SSI to the 'weaker section' in this category has been decided upon by the Group.

The Group also recommends that while it has specified a sub-target for advances below Rs. 25,000, the banks also need to give special attention to the credit requirements of the smaller amongst the SSI units, *viz.*, those requiring credit facilities below Rs. 2 lakhs, as many such units are likely to be set up by new entrepreneurs, particularly in rural and semi-urban areas.

Advances to other priority sectors (Retail trade and small business, professionals and self-employed persons and education)

4.11 The definitions given in the February 1972 circular of the Reserve Bank of India only describe the other priority sectors generally and do not indicate any ceilings on credit facilities or investment or turnover, etc. In the case of DICGC schemes certain ceilings are fixed in the case of retail trade in respect of their annual sales, *i.e.*, Rs. 10 lakhs for traders in fertilisers or mineral oils and Rs. 4 lakhs for traders in other goods. The original cost price of the equipment in the case of 'business enterprises' (small business) used for the purpose of business should not exceed Rs. 2 lakhs. There is no ceiling, however, in the case of professionals and self-employed persons as well as for transport operators. Although these sectors account for less than 20 per cent of the total advances to the priority sector, the Group considers it necessary to refine the definition of these sectors in order to restrict financing of the more affluent sections in these sectors under the "priority sector" lending. For this purpose, the following suggestions have been made :

(*a*) *Retail Trade*

(*i*) *Traders in goods other than fertilisers and mineral oils*

Only borrowers whose annual turnover does not exceed Rs. 4 lakhs should be included in this category.

(*ii*) *Traders in fertilisers and mineral oils*

Only borrowers whose annual turnover does not exceed Rs. 10 lakhs should be included in priority sector.

(*b*) *Transport operators*

All transport operators who are eligible for IDBI refinancing, *i.e.* transport operators owning a fleet of vehicles not exceeding 6 vehicles including the one proposed to be financed could be included in priority sector. This would also include operators of taxis, auto-rickshaws, etc., and such advances may be included in this category irrespective of the fact whether refinance has been obtained from IDBI or not. In providing assistance to this sector the banks should give special attention to the needs of single vehicle owner-operators.

(*c*) *Professional and self-employed persons*

At present, there is no ceiling on the advances to these categories for inclusion in the priority sectors. As the lack of ceiling leads to recourse to this facility by well-to-do professionals also, only such professionals and self-employed persons whose borrowings (limits) do not exceed Rs. 2 lakhs need be included in this category of priority sector.

(*d*) *Small business*

In this category also, at present all such borrowers are included. It is considered appropriate to confine this category to only borrowers covered under the DICGC scheme. Accordingly, it is suggested that only borrowers whose original cost price of the equipment used for the purpose of business does not exceed Rs. 2 lakhs should be included in this category. It may also include within this ceiling small restaurants, house-boats, etc., which according to some banks are not at present included.

Other items recommended for inclusion in priority sector

4.12 An allied issue considered by the Group is the treatment of the assistance under the 20-Point Programme to beneficiaries who are not at present covered by the priority sector. The Group has indentified these beneficiaries in Annexure IV-Part B. As the concept of priority sector is intended to include advances to the under-privileged sections of the society, it is felt that some of the items which are not being considered as priority sector at present but which are covered by the 20-Point Programme should hereafter be classified as priority sector. One of the important criteria for advances being classified as priority sector hitherto has been that such advances should be for productive purposes. Although on this basis, it would not be possible to classify as priority sector housing finance for members of the weaker sections who have been allotted house sites, the Group feels that such advances to the weaker sections of the society would need a special treatment. Direct loans to Scheduled Castes and Scheduled Tribes and the economically weaker sections, *i.e.*, the low income group where individual loan amounts do not exceed Rs. 5,000 for house construction finance should be treated as a separate category under the "priority sector" advances. Similarly, assistance given to any governmental agency for the purpose of constructing houses exclusively for the benefit of the above group and where the loan component does not exceed Rs. 5,000

per unit, should be treated as indirect advances under this category. Assistance to any governmental agency for slum clearance and rehabilitation of slum dwellers should also be treated as indirect advances to this category, provided the beneficiaries satisfy the criteria mentioned above. The other terms and conditions for such advances may continue to be those contained in the RBI circular dated the 31st May 1979 on the subject.

In addition, the Group also feels that the pure consumption loans given by banks to the agriculturists, etc., which in any case would not exceed Rs. 500 per family per year for different purposes should also be treated as direct advances, to the relative sector. The priority sector coverage will have to be, therefore, suitably extended to include the above items.

The Group suggests that the Reserve Bank of India may review the definitions/descriptions of the priority sector in the light of the recommendations made in this Chapter and elsewhere and issue suitable instructions to banks as early as possible. The Group's recommendations in this regard are summarised in Annexure V.

A revised list of the beneficiaries under the 20-Point Programme, incorporating the above modifications, is given in Annexure VI.

Stepping up of priority sector lending—Implementation

4.13 According to the data available as at the end of June 1979, the priority sector advances of the public sector banks at Rs. 5209 crores spread over 97 lakhs borrowers, accounted for 32.1 per cent of their total advances at Rs. 16,220 crores. The sectoral deployment of such credit was broadly as follows :

	Amount in crores of Rs.	*% to total priority sector advances*	*% to total advances*
Agriculture	**2221**	**42.6**	**13.7**
Direct	*1678*	*32.2*	*10.4*
Indirect	*543*	*10.4*	*3.3*
Small Scale Industry	**2061**	**39.6**	**12.7**
Others	**927**	**17.8**	**5.7**
(*a*) Transport	*387*	*7.4*	*2.4*
(*b*) Retail trade	*414*	*8.0*	*2.6*
(*c*) Professionals and self-employed persons ..	*119*	*2.3*	*0.7*
(*d*) Education	*7*	*0.1*	*(0.05)*
Total	**5209**	**100.0**	**32.1**

The total number of priority sector accounts as at the end of September 1979 exceeded 100 lakhs and slightly more than 70% of such accounts were in the agricultural sector.

In the absence of adequate time, it has not been possible for the Group to make any detailed study of the projections of these figures by the end of 1985. Broadly, it may be said that the volume of priority sector advances would be more than double the present level while the number of beneficiaries would be about three times the present number. Banks would have to therefore make sustained efforts to streamline their organisational set-up and lending and monitoring systems to cope with the substantial increase in the priority sector lending and to service the large number of accounts involved. It may also be necessary to consider ways of covering groups of borrowers through separate agencies. This aspect has been dealt with in paragraph 3.7.

On the assumption that the amount of advances during the next 5 years would double itself, in order to maintain a ratio of 40% of priority sector to total advances by 1985, banks that are currently maintaining the ratio at 34% would have to utilise on an average 46% of their estimated expansion in credit every year towards priority sector lendings. Banks which are having a current ratio of 40% can maintain the target if they utilise on an average 40% of their estimated expansion in credit every year towards priority sectors, whereas a bank whose current ratio is only 25%, would have to utilise about 55% of the additional advances every year on an average to reach the target. As the current ratio of priority sector advances of the banks to total advances varies from 27% to 42%, the Group does not consider it appropriate to fix any annual target within the overall target of 40% to be achieved by 1985. The banks would have to, however, follow the undernoted guidelines in the matter of deployment of additional credit to the priority sectors :

1. All banks should aim at ensuring that a minimum of 40% of the additional credit every year flows to the priority sectors.

2. Subject to the above minimum, the banks whose ratio is presently below 40% will have to work out the additional amounts to be disbursed in the priority sectors every year so as to progressively reach the target of 40% by 1985.

Fixing of Sub-Targets

4.14 One of the terms of references of the Group is to look into the question of fixing sub-targets within the enhanced overall target of 40% for assistance to priority sectors to the beneficiaries under the 20-Point Programme. The Group considered the question of fixing sub-targets for the beneficiaries under the 20-Point Programme. Sub-targets, if at all to be fixed, may have to be based: (*a*) in relation to the overall assistance for the beneficiaries under the 20-Point Programme; (*b*) in relation to the extent of assistance under each point of the Programme; and (*c*) in relation to the extent of assistance to the beneficiaries under the 20-Point Programme under each category of the priority sector. In the absence of any reliable data, the Group felt that any exercise in fixing sub-targets for the beneficiaries under the 20-Point Programme on an aggregate basis would not be possible. This problem would become more acute

if an attempt were to be made to fix the sub-targets for each point of the Programme. It may not also be possible to fix under each category of priority sector, a limit for advances to beneficiaries under the 20-Point Programme. Even if ad-hoc limits are fixed for the beneficiaries under any of the above methods, there is also the problem of monitoring the performance of banks in fulfilling the targets. Too much of target-oriented approach in lending is also not desirable, as in the process banks are prone to make advances for the purpose of satisfying the targets without going into the merits of each case. The Group, therefore, has come to the conclusion that it would not be prudent to fix separate sub-targets for the beneficiaries under the 20-Point Programme.

At the same time the Group recognises the need for ensuring that the beneficiaries under the 20-Point Programme, who mostly represent the weaker sections, should be given assistance to the full extent. It is, therefore, recommended that the banks should take care to see that suitable viable schemes are formulated in consultation with the State development agencies for all the beneficiaries under the 20-Point Programme identified by the State agencies and adequate finance provided for their implementation.

In order to ensure that under the main categories of priority sector advances *viz.*, agriculture and small scale industries, a sizeable portion of the bank assistance should go for the benefit of the weaker sections including the beneficiaries under the 20-Point Programme, the Group has already suggested that such weaker sections within these sectors would have to be treated on a separate basis and has accordingly suggested separate sub-targets for them. The Group, therefore, feels that it is neither feasible nor necessary to fix separate sub-targets for beneficiaries of the 20-Point Programme, if its aforesaid recommendations are accepted. It needs to be mentioned that in the next Chapter the Group has recommended a separate monitoring of the assistance pertaining to the beneficiaries of the 20-Point Programme which would ensure that the banks effectively implement the Programme.

CHAPTER V

MODALITIES OF EVALUATION OF PERFORMANCE OF BANKS IN LENDING TO PRIORITY SECTORS PARTICULARLY UNDER THE 20-POINT PROGRAMME AND MACHINERY FOR MONITORING OF THE PROGRESS IN SUCH PERFORMANCE

5.1 The Group has considered at length the question of evaluation of the performance of banks in lending to the priority sector and extending assistance to the beneficiaries under the 20-Point Programme. The assistance to the beneficiaries of the 20-Point Programme would, as stated in Chapter II, comprise advances coming under 'priority sector' advances and assistance by way of advances not included in priority sector categories and investments. It is necessary that periodical data of bank assistance in both the categories are available. The Working Group to review the system of data collection has been requested to take note of these requirements.

Modalities of evaluation

5.2 The present system of evaluation is more or less confined to merely overseeing the performance of the banks in achieving the targets laid down for lending to priority sectors, under the DRI Scheme and lending through rural/semi-urban branches, etc. A detailed analysis of the quantum of finance extended to these sectors, whether the benefit has really gone to the weaker sectors as intended, the number of additional beneficiaries benefited from bank assistance, recovery position, etc., has not been made, in any case, on a systematic and continuous basis. The performance assessment is mainly based on the outstanding advances to these sectors and not on the basis of disbursement. As the outstandings include overdues, suit-filed and doubtful advances, unpaid interest, etc., assessments made on such basis are likely to be misleading. A more detailed evaluation of the performance of banks has not been possible mainly for want of the requisite data, particularly in respect of disbursements as also recovery position in respect of all categories of priority sector advances. The revised system of data collection on a district-wise basis recently introduced would give information relating to disbursements in loan accounts and limits in force in respect of running accounts (overdrafts and cash credits) as also the overdue position in respect of all categories of advances. This should enable a more comprehensive evaluation to be made. The Group recommends that the various criteria to be taken into account for such evaluation should be:

(*i*) compliance with the targets and sub-targets fixed,

(*ii*) number of additional beneficiaries financed during the reporting period under each category like agriculture, small scale industries, etc.,

(*iii*) extent of lendings to 'weaker section' under each of the categories like agriculture and small scale industries,

(*iv*) performance of the banks on the basis of disbursements or outstandings as appropriate, and

(v) quality and recovery position of advances—overall as well as for different categories.

The Group has made later in the report, a recommendation that there is a necessity for establishing a machinery to assess the requirements of various segments of priority sectors on a continuous basis. If such estimates are available, it may also be possible to make an assessment as to how far the banking system has met the estimated credit requirements. The Group recommends that such detailed evaluation should not only be introduced in each bank but an overall evaluation of the banking system should be introduced at the RBI level. The Group has indicated to the Working Group to review the system of data collection that it may look into the question how far the existing data collection system needs modification for the requisite information to be available.

Monitoring and evaluation of credit schemes, lending in specific areas, etc.

5.3 It is understood that the commercial banks have, of late, initiated a system of making detailed evaluation studies of the schemes financed by them. There was considerable discussion in the Group on this. By and large, such studies have been sporadic and one of the main reasons for the banks not being in a position to initiate such studies on a regular and systematic basis has been the inadequacy of necessary expertise. Systematic evaluation of the programmes under implementation on an ongoing basis is very necessary in the area of priority sector lending with its emphasis on assistance to the weaker sections, as the banks would have to continuously innovate and modify their programmes in order to ensure that they are cost-effective. The general consensus has been that the individual banks need to make studies of the specific schemes financed by them. It is also necessary that study of bank financing in specific areas covering all schemes in the area is made on a continuous basis. This would have to be done by a multi-institutional team comprising different agencies like the RBI, the banks operating in a particular area and technical experts from the Government or agencies like KVIC, Handloom Board, Silk Board, etc. Agencies like ARDC, AFC and IDBI also could be associated with such studies. The object of such studies should be to analyse the performance of banks in specific areas, and ascertain the problems encountered by the banks in the preparation and implementation of the schemes and recovery of loans. Such studies could also give valuable feed-back about the efficacy of the arrangements for co-ordination between the banks and State Government agencies. Besides, such studies could also be useful in assessing the impact of bank lendings on the economic development of the area.

The Group is of the view that the findings of the studies made by the individual banks could be usefully shared with other banks through the RBI. It is also felt that there is necessity for pooling of expertise and training of the required personnel on methodology, etc., for conducting such studies. Such training may be organised by NIBM, BTC or CAB.

Machinery within banks

5.4 It is understood that generally there are separate Departments/Divisions in Central Office/Head Office of banks to formulate policies for lending to various priority sectors and oversee the performance. In some banks, separate Departments/Divisions exist for separate segments of the priority sectors like agriculture, small scale industries and small business. More or less similar arrangements also exist at the regional level. At the district level, the banks having lead responsibility have Lead District Officers,

while other banks functioning in the district have District Co-ordinators. In May 1976, the Government had advised banks that keeping in view the urgency of the 20-Point Programme, its follow-up action could be overseen by a Special Implementation Cell within the existing Planning and Development Division at the Head Office of the banks. Further, on the basis of the recommendations of the James Raj Committee, the Reserve Bank had advised the banks that the portfolios of lending to priority sectors might be placed directly under the charge of senior executives who would give proper policy directions for any changes required to be made for carrying out the work with more dynamism and sincerity. Similarly, on the basis of the recommendations of the Gunvant Desai Group, the Reserve Bank had advised banks that they should establish Monitoring and Evaluation Cells for the purpose of watching the progress in lending and also to gather information on the difficulties experienced in implementing the agricultural credit schemes. It was also suggested to banks that they might evolve a machinery to get up-to-date information on the recovery of loans for different purposes, identify causes behind poor recoveries and take timely corrective action. The task of gathering such information, analysing it and suggesting proper corrective action, it was recommended, should become an integral function of Monitoring and Evaluation Cells set up by banks. It was further suggested that the banks, ARDC and AFC should take up, on a regular basis, the task of evaluating the agricultural credit schemes. All these measures, recommended by various other Committees/Groups, if implemented, would be adequate to exercise proper supervision and control over the advances to the priority sectors and to evaluate their effectiveness. The Group is, therefore, of the view that these recommendations need to be implemented by banks as quickly as possible. Having regard to the fact that a sizeable portion of the credit portfolio would be to the priority sectors, it would be in the interests of the banks to ensure that a strong machinery at all levels of organisation is built up to monitor such advances. Such machinery should have the necessary experts and technical staff support.

5.5 The mechanism for monitoring the progress of the priority sector lending including assistance under the 20-Point Programme will necessarily be through:

Mechanism of monitoring

(*i*) budgeting/review,
(*ii*) returns,
(*iii*) on the spot study, and
(*iv*) reporting to various forums and the Board.

As already indicated, the allocations under the District Credit Plans would have to be integrated in the overall credit budgets of the banks. A monthly review of branch performance vis-a-vis budget through summary data should enable banks to give necessary direction to the branches where the performance has lagged behind. A more detailed performance review could be undertaken at quarterly intervals.

As far as possible, the returns prescribed by individual banks should be in the same form in which information is furnished to the Reserve Bank. It may also be necessary for banks to move gradually towards accounting systems and procedures for maintenance of records at the field and other levels for priority sector advances are such that compilation of data for the purpose of submission of returns and in-depth/on the spot studies of such portfolios would pose no problems.

The banks should evolve a proper system of periodical reporting on priority sector advances and lending under the 20-Point Programme to their Boards. Such reports should give:

(*a*) outstandings and disbursements data of priority sector advances to assess quantitative progress in advances to these sectors indicating specifically the quantum of finance extended to the weaker sections in each sector,

(*b*) the performance vis-a-vis the targets laid down,

(*c*) the extent of additional borrowers financed by the banks during the reporting period,

(*d*) recovery performance under each category and extent of incidence of bad and doubtful debts,

(*e*) findings of the evaluation studies and other research papers on priority sector advances, and

(*f*) review of organisational set up at various levels to monitor the categories of advances and adequacy thereof.

Review by other agencies

5.6 As regards review by other agencies, the Group suggests that at the district level, the DCCs should review, on a quarterly basis, the progress of bank assistance to priority sectors, including assistance to beneficiaries under the 20-Point Programme. The State Level Co-ordination Committees might review the performance of the banks in each State. These meetings may be attended by senior officials of the Reserve Bank as also Government of India on a regular basis.

CHAPTER VI

OTHER RELATED ISSUES

The foregoing Chapters deal with the main terms of reference of the Working Group. The Group also considered certain related issues which have a bearing on bank lending to priority sectors and the 20-Point Programme beneficiaries. This Chapter deals with such issues.

Regional imbalance in credit deployment

6.1 One of the main objectives of nationalisation of banks in 1969 was that the banking system should help towards removing the regional imbalance in economic development by so arranging their lending portfolio that more credit would be deployed in the backward States and districts of the country. As a means to achieving this end, the banks have been advised that their credit-deposit ratio in rural and semi-urban branches should separately be at least 60%. The targets for priority sector lendings, lendings under the DRI Scheme and the credit-deposit ratio for rural and semi-urban branches are to be achieved on all-India basis by individual banks. Banks have, however, been advised to keep in mind that there is no wide disparity in credit dispensation between different areas of the country. Thus, while it has not been the intention to take too rigid a view about the targets in relation to specific geographical areas, the Group accepts that there should not be any glaring regional disparity in the attainment of these targets. The available figure of credit-deposit ratio as at the end of March 1979 indicates that there are a number of districts in the country where the credit-deposit ratio is very low. The Group discussed this matter at length. Admittedly, the lack of infrastructural facilities and consequent lack of credit absorption capacity is a major hindrance to a more equitable deployment of credit in different areas of the country. For creating the necessary infrastructural facilities and to create conditions conducive to the deployment of credit, the State Governments have necessarily to play the major role. Many members have also stressed the fact that in States having large metropolitan or commercial centres, heavy concentration of advances in these centres would bring down the proportion of DRI advances, lendings in priority sectors, etc., in these States. Another point that has been stressed in this context is that in certain areas, there is no scope for conventional advances and banks have to concentrate on priority sector and DRI advances with the result that in other areas, where there is scope for traditional advances, the percentages would be necessarily low. While appreciating these aspects, the Group still feels that the banking system should strive to even out the regional imbalances in deployment of credit in the best feasible manner and recommends the following steps in this regard :

(*a*) Banks, in their areas of operation in such backward regions should make special efforts to evolve suitable bankable schemes for the weaker sections and finance such schemes. The banks could approach the State Governments with such schemes and seek the co-operation of the Government machinery in implementing the schemes.

(*b*) In States, where the credit-deposit ratios are low, the State Level Consultative Committees could form compact committees comprising representatives of the principal lead banks, State Government experts as also (where necessary)

representatives from the Government of India, RBI, ARDC, etc., to go into specific problems, relevant to the local situation, to evolve suitable schemes to increase the involvement of banks in the economic development of the concerned States.

The Group went into the question whether it was necessary to stipulate any specific percentage of incremental credit to be deployed in backward States. It is not considered necessary or feasible to take such measures, as geographical coverage of banks differs and as the credit-deposit and other ratios have to be complied with by banks in respect of their total operations and cannot be implemented in respect of part of their operations. The Group, however, strongly recommends that the banks should explore the possibility of additional credit deployment in backward areas and the measures suggested above should help improve the situation.

Impact on bank profits

6.2 The banks' Chairmen, while agreeing that the target of 40% for lending to priority sectors was feasible, had focussed attention on the impact of the cost of financing a large number of borrowers in the priority sectors and the comparatively lower return on such advances on the profitability of the banks and their ability to create adequate provision for such advances. It is true that the social obligations cast on the banks do affect their profitability to some extent. In this context, the Group considered the question whether there could be any increase in the lending rates for the priority sectors. It is agreed that so far as the beneficiaries under the 20-Point Programme and the "weaker sections" classified under the priority sectors are concerned, it would not be possible to increase the lending rates. To some extent, the banks' interests in priority sector lending are protected in that guarantee cover is available for such advances to a large extent and that refinance is available at concessional rates on loans for which they have to charge concessional rates of interest. The present directives of the RBI have exempted only the advances to the comparatively weaker sections among the priority sectors from the application of the minimum lending rates, but the priority sector advances as a class are exempted from the recent hike in lending rates. Within these parameters, the banks have the discretion to charge a higher rate of interest to the more affluent borrowers in the priority sectors. The Group would, however, suggest that any hike in lending rates should apply only to the larger borrowers in the priority sector categories like small scale industrial units enjoying credit limits of over (say) Rs. 25 lakhs.

As regards other fiscal concessions, certain recommendations made by the PEP Committee are under Government's consideration and the Group would urge that the Government give serious consideration to these recommendations. The Group also notes that certain suggestions have been made to the Governor of the RBI by the representatives of the Indian Banks' Association when they discussed the profitability of banks with him and these issues are also receiving consideration. While considering these suggestions, the Reserve Bank could also look into the impact of stepping up the priority sector lendings on the earning capacity of banks. Appropriate decisions on the above measures should, to some extent, improve the profitability of banks.

In this context, the Group also considered the question whether there should be any system to remove the disincentive of the adverse impact of priority sector

lending on profitability for banks which exceed the stipulated minimum targets of lendings under the priority sectors and under the DRI Scheme. Some of the suggestions considered were: whether the RBI could give additional refinance to such banks or charge a slightly lower rate of interest on such advances. The other suggestion considered was whether the Government should in the case of such banks increase the level of tax relief in respect of the provisions made for advances at rural branches from $1\frac{1}{2}\%$ to, say, 2%. These suggestions raise several complex questions and it has not been possible for the Group to examine their pros and cons in detail. The Group, therefore, recommends that the RBI and the Government may go into the question in greater detail and consider ways of rewarding such banks.

National credit plan

6.3 The Estimates Committee had, in its 62nd and 84th Report, emphasised the need to undertake studies to assess the credit gap in agriculture and other priority sectors through bank branches and other appropriate agencies and thereafter, prepare an integrated plan of action so as to achieve the objective of meeting substantially the requirements of these sectors within a time-bound programme.

The Committee in its 18th (6th Lok Sabha) Report has reiterated the need to have a realistic estimate of the needs of the priority sectors and formulate an integrated plan of action to meet their credit requirements. This plan of action should also aim at reducing imbalances in the credit distribution in the various regions of the country. District Credit Plans, to a limited extent, make such an assessment and evolve an action plan. The Group, however, agrees that at the national level, there is need for establishment of a machinery to assess the requirements of the priority sectors on a continuous basis. The Group, therefore, suggests that the RBI may consider the question of instituting such a machinery in consultation with the Planning Commission.

Private sector banks

6.4 The formal obligation of lending to priority sector was extended to the private sector banks in November 1978. They were advised that their lending to the priority sectors should constitute not less than $33\frac{1}{3}\%$ of the total advances. Consistent with the decision to increase the share of priority sector advances to 40% by 1985 for the public sector banks, the Group would recommend that the same obligation should be placed on the private sector banks as well. The Group is also of the view that the private sector banks should also actively participate in extending assistance to the beneficiaries of the 20-Point Programme.

Routing of advances through RRBs

6.5 The sponsor banks have been permitted to route their advances under the DRI Scheme through RRBs. Further, the sponsor banks also meet the resources required for lending by the RRBs to a minimum of 35%. The Group considered the question whether such indirect lending through RRBs should be reckoned while assessing the performance of banks in complying with the target of 40% for priority sector advances. The Group is of the view that it is not necessary to include such advances to RRBs in the priority sector lendings of the sponsor banks. The question may, however, be reviewed when such indirect lendings reach a large proportion. However, advances of the sponsor banks under DRI Scheme routed through RRBs may be included in the priority sector lendings of the sponsor banks.

CHAPTER VII

SUMMARY OF MAJOR RECOMMENDATIONS

1. While continuing to provide direct assistance to the various categories of beneficiaries under the 20-Point Programme, banks may also route credit to individual beneficiaries through State sponsored corporations/ agencies (besides the co-operative system) exclusively set up for the benefit of such beneficiaries and the 'weaker section' in the various categories of 'priority sector' on a schematic basis subject to certain conditions (Para 3.7).

2. Supportive action on the part of the State Governments is vital to facilitate bank assistance for the beneficiaries under the 20-Point Programme. The main areas for State Government assistance relate to (*a*) identification of borrowers and issue of some identity documents, (*b*) provision of infrastructural facilities, (*c*) technical support in preparation and implementation of bankable schemes and/or techno-economic surveys, (*d*) provision of necessary inputs and assistance in marketing of products, (*e*) providing financial guarantees or undertaking to take specific steps, (*f*) assistance for recovery of overdue loans, and (*g*) arrangements for imparting training to the beneficiaries (Para 3.8).

3. State Governments which have not passed legislation on the lines recommended by the Talwar Committee should do so at an early date and also take necessary steps to put into operation the requisite machinery for enabling banks to avail of the legislative provisions. The banks should also share the financial burden of the State Governments in the maintenance of staff for recovery of bank dues (Para 3.9).

4. RBI may, by itself or through the IBA or through a Committee appointed for the purpose, look into the existing legislative provisions for recovery of bank loans, particularly in rural and semi-urban areas (Para 3.9).

5. District Credit Plans should provide for assistance to 20-Point beneficiaries. They should be given due consideration for assistance within the framework of Action Plan for 1980. The Plans for 1981 and 1982 should explicitly provide for assistance to such beneficiaries (Para 3.10).

6. Banks should review the staff deployment at rural and semi-urban centres in order to ensure smooth flow of credit to the priority sectors. These centres should have easy access to the services of the technical staff maintained by the banks as well as by the State Governments (Para 3.11).

7. Bank assistance to the beneficiaries under the Programme could be specifically discussed and monitored at the various forums for co-ordination which are existing at the district and State levels (Para 3.12).

8. In the interest of uniformity, certain modifications are necessary to the existing definitions of priority sectors. In order to ensure that the more

under-privileged sections in the 'priority sectors' are given proper attention by banks in the matter of advances, it is necessary to introduce the concept of 'sub-sectors' representing the 'weaker sections' within the two main priority sectors, *viz.*, agriculture and small scale industries (Para 4.5 to 4.7).

9. As banks have varying geographical coverage and different clientele groups, sub-allocation of the overall target of 40% for priority sectors for each category of priority sector on a uniform basis may not be logical or necessary. However, in view of the position that agriculture occupies in the national economy, out of the advances to the priority sector, at least 40% should be extended to the agricultural sector. This would mean that the advances to the agricultural sector would be at least 16% of the total advances by 1985 (Para 4.9).

10. The Group has proposed that the 'weaker section' in the agricultural sector would comprise:

    (*a*) Small and marginal farmers with landholdings of 5 acres or less and landless labourers.

    (*b*) Persons engaged in other allied activities where borrowal limits for such activities do not exceed Rs. 10,000.

    The direct advances to such weaker sections should reach a level of at least 50% of the total direct lendings to agriculture (including allied activities) by 1983 (Para 4.9).

11. All small scale industries with limits upto and inclusive of Rs. 25,000 should be treated as the 'weaker section' in this category. Advances to this 'weaker section' should constitute 12.5% of total advances to small scale industries by 1985 (Para 4.10).

12. The RBI may review the definitions/descriptions of the priority sector in the light of the recommendations made by the Group and issue suitable instructions to banks (Para 4.12).

13. In achieving the target of 40% of total lending to the priority sectors by 1985, banks should in every case ensure that a minimum of 40% of the additional credit every year is allocated to the priority sectors. Subject to this minimum, the banks whose ratio is presently below 40% will have to work out the additional amounts to be disbursed in the priority sectors every year so as to progressively reach the target of 40% by 1985 (Para 4.13).

14. Banks should take care to see that suitable viable schemes are formulated in consultation with State development agencies for all the beneficiaries under the 20-Point Programme identified by the State agencies and adequate finance provided for their implementation (Para 4.14)

15. The need for a comprehensive evaluation of performance by banks in priority sector lending at bank level as well as RBI level is recognised. The various criteria to be taken into account for such evaluation should be (*i*) compliance with targets, sub-targets, (*ii*) number of additional beneficiaries, (*iii*) extent of lendings to 'weaker section', (*iv*) performance of the banks on the basis of disbursement, and (*v*) quality and recovery position of advances (Para 5.2).

16. Individual banks need to make studies of the specific schemes financed by them. It is also necessary that study of bank financing in specific areas covering all schemes in the area is made on a continuous basis by multi-institutional teams. The findings of the studies made by the individual banks could be usefully shared with other banks through RBI. Training of the required personnel on methodology, etc., for conducting such studies may be organised by NIBM, BTC or CAB (Para 5.3).

17. The recommendations made by various Committees/Working Groups for exercising proper supervision and control over the advances to the priority sectors need to be implemented by banks as quickly as possible. It would be in the interests of the banks to ensure that a strong machinery at all levels of organisation, with experts and technical staff support, is built up to monitor such advances (Para 5.4).

18. Mechanism for monitoring the progress of priority sector lending including assistance under the 20-Point Programme will be through budgeting/review, returns, on the spot study and reporting to various forums and the Board (Para 5.5).

19. At the district level, the DCCs and at the State level the SLCCs may review banks' performance in lending to priority sectors including assistance to beneficiaries under the 20-Point Programme (Para 5.6).

20. Banks should strive to even out the regional imbalances in the deployment of credit in the best feasible manner. Towards this end in view, banks should make special efforts to evolve suitable schemes for the weaker sections and finance such schemes, seeking also the co-operation of the Governmental machinery in implementing them. Besides, where credit-deposit ratios are low, the SLCCs could constitute compact committees to go into specific problems (Para 6.1).

21. Although it would not be possible to increase the lending rates to beneficiaries under the 20-Point Programme and the weaker sections in the priority sectors, within the parameters laid down in the existing directive of RBI, banks have the discretion to charge higher rates of interest to the more affluent borrowers in the priority sectors (Para 6.2).

22. Government may give serious consideration to the recommendations of the PEP Committee regarding fiscal concessions to banks (Para 6.2).

23. The RBI could also look into the impact of stepping up the priority sector lendings on the earning capacity of banks (Para 6.2).

24. At the national level there is need for establishment of a machinery to assess the requirements of the priority sectors on a continuous basis and the question of instituting such a machinery may be considered by RBI in consultation with the Planning Commission (Para 6.3).

25. The obligation to increase the share of priority sector advances to 40% by 1985 should be placed on the private sector banks as well, who should also actively participate in extending assistance to the beneficiaries of the 20-Point Programme (Para 6.4).

Sd/-
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Chairman

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P. C. D. NAMBIAR
Member

Sd/-
P. F. GUTTA
Member

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O. P. GUPTA
Member

Sd/-
C. E. KAMATH
Member

Sd/-
M. A. CHIDAMBARAM
Member

Sd/-
V. K. DIKSHIT
Member

Sd/-
W. S. TAMBE
Member-Secretary

Bombay,
April 22, 1980

ANNEXURE I

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY-400 001.

March 13, 1980

Phalguna 23, 1901 (Saka).

MEMORANDUM

At the meeting of the Finance Minister with the Chief Executive Officers of the Public Sector banks held on the 6th March 1980, it was agreed (*i*) that banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by 1985; and (*ii*) that the banks should actively participate in the implementation of the 20-Point Programme. In pursuance of this decision, the Reserve Bank of India appoints the following working group to examine and report on the modalities of implementation of the above programme.

1.	Dr. K. S. Krishnaswamy, Deputy Governor, Reserve Bank of India, Central Office, Bombay.	*Chairman*
2.	Shri P. C. D. Nambiar, Chairman, State Bank of India, Bombay.	*Member*
3.	Shri P. F. Gutta, Chairman and Managing Director, Central Bank of India, Bombay.	*Member*
4.	Shri S. Niyogi, Chairman and Managing Director, United Bank of India, Calcutta.	*Member*
5.	Shri O. P. Gupta, Chairman and Managing Director, Punjab National Bank, New Delhi.	*Member*
6.	Shri C. E. Kamath, Chairman and Managing Director, Canara Bank, Bangalore.	*Member*

7. Shri M. A. Chidambaram, Managing Director, Agricultural Refinance and Development Corporation, Bombay. — *Member*

8. Shri V. K. Dikshit, Joint Secretary, Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division), New Delhi. — *Member*

9. Shri W. S. Tambe, Executive Director, Reserve Bank of India, Central Office, Bombay. — *Member-Secretary*

2. The terms of reference of the Working Group are as follows :

(*a*) identification of the specific groups which are to be assisted under the 20-Point Programme,

(*b*) the ways and means of rendering assistance to the beneficiaries identified under (*a*) above,

(*c*) to look into the question of fixing sub-targets (within the enhanced overall target of 40% for assistance to priority sectors) to the beneficiaries identified under (*a*) above,

(*d*) to consider whether certain types of assistance to the beneficiaries identified under (*a*) which is presently not treated as "priority sector" should be included in the "priority" category,

(*e*) to consider the modalities of evaluation of the performance of banks in lending to priority sectors, particularly under the 20-Point Programme,

(*f*) to suggest an appropriate machinery within the banks to monitor the progress of the assistance to the priority sectors, particularly under the 20-Point Programme,

(*g*) to make any other recommendations which are incidental or related to the above items of reference.

3. The Working Group is expected to submit its report by April 15, 1980.

4. The Secretariat of the Working Group will be provided by the Department of Banking Operations and Development of the Reserve Bank of India.

sd/-
(I. G. Patel)
Governor

ANNEXURE II

NAMES OF EXECUTIVES OF BANKS AND OTHER INSTITUTIONS WHO ATTENDED THE MEETINGS OF THE GROUP

I. Government of India

1. Shri Dinesh Chandra,
   Director,
   (Banking Division).

2. Shri S. S. Hasurkar,
   Deputy Secretary,
   (Banking Division).

II. Banks

1. Shri R. P. Goyal,
   Deputy Managing Director,
   State Bank of India.

2. Shri V. Srinivasan,
   Chief Officer,
   State Bank of India.

3. Shri R. G. Bhatnagar,
   Chief Officer,
   State Bank of India.

4. Shri S. Sundar,
   Deputy Chief Officer,
   State Bank of India.

5. Shri R. Nagarajan,
   Officer,
   State Bank of India.

6. Shri V. C. Bambolcar,
   Deputy General Manager,
   Central Bank of India.

7. Shri D. K. Gupta,
   Asstt. General Manager,
   Punjab National Bank.

8. Shri R. Venkateswaran,
   General Manager,
   Canara Bank.

9. Shri A. P. Rao,
   Divisional Manager,
   Canara Bank.

10. Late Shri T. R. Shah,
    Deputy General Manager,
    United Bank of India.

III. Agricultural Refinance & Development Corporation

1. Shri Y. S. Borgaonkar,
   General Manager.

2. Shri T. K. Kasiviswanathan,
   Director.

IV. Reserve Bank of India

1. Kum. Nalini K. Ambegaokar,
   Adviser,
   Credit Planning Cell.

2. Dr. H. B. Shivamaggi,
   Adviser,
   Rural Planning & Credit Cell.

3. Shri K. B. Chore,
   Chief Officer,
   Department of Banking Operations and Development.

4. Shri A. Seshan,
   Deputy Director,
   Economic Department.

ANNEXURE III

THE 20-POINT ECONOMIC PROGRAMME

1. Continuance of steps to bring down prices of essential commodities. Streamlined production, procurement and distribution of essential commodities. Strict economy in Government expenditure.

2. Implementation of agricultural land ceilings and speedier distribution of surplus land and compilation of land records.

3. Stepping up of provisions of house sites for landless and weaker sections.

4. Bonded labour, wherever it exists, will be declared illegal.

5. Plan for liquidation of rural indebtedness. Legislation for moratorium on recovery of debt from landless labourers, small farmers and artisans.

6. Review of laws on minimum agricultural wages.

7. Five million more hectares to be brought under irrigation. National Programme for use of ground water.

8. An accelerated power programme. Super thermal stations under Central control.

9. New development plan for development of handloom sector.

10. Improvement in quality and supply of people's cloth.

11. Socialisation of urban and urbanisable land. Ceiling on ownership and possession of vacant land on plinth area of new dwelling units.

12. Special squads for valuation of conspicuous construction and prevention of tax evasion. Summary trials and deterrent punishment of economic offenders.

13. Special legislation of confiscation of smugglers' properties.

14. Liberalisation of investment procedures. Action against misuse of import licences.

15. New schemes for workers' association in industry.

16. National Permit Scheme for road transport.

17. Income-tax relief to middle class. Exemption limit placed at Rs. 8,000.

18. Essential commodities at controlled prices to students in hostels.

19. Books and stationery at controlled prices.

20. New apprenticeship scheme to enlarge employment and training, especially of weaker sections.

ANNEXURE IV

Part A

LIST OF BENEFICIARIES TO BE ASSISTED UNDER THE 20-POINT PROGRAMME BY BANKS

Existing category of priority sector		Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
I. Agriculture (Direct finance)	(*a*)	Identified landless labourers and others who have been allotted surplus land, oral share-croppers, etc., given recorded rights in land.	Assistance for agriculture and allied activities.	2
	(*b*)	Allottees of house sites amongst landless and weaker sections.	Assistance for taking up agricultural and allied activities in addition to housing finance.	3
	(*c*)	Identified released Bonded labour.	Assistance for agricultural and allied activities.	4
	(*d*)	Identified landless labourers, small farmers.	-do-	5
	(*e*)	Individual farmers.	Assistance for minor irrigation.	7
(Indirect finance)	(*a*)	State sponsored credit institutions specifically sponsored for beneficiaries of 20-Point Programme.	Finance for agriculture and allied activities.	2,3, 4 & 5
	(*b*)	Government agencies engaged in implementing minor irrigation schemes.	-do-	7
	(*c*)	Electricity Boards.	Assistance for energisation of pumpsets under rural electrification schemes	7

Existing category of priority sector		Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
II. Small scale industry (Direct finance)	(*a*)	Identified landless labourers and others who have been allotted surplus land.	Finance for setting up rural and other small industries.	2
	(*b*)	Allottees of house sites amongst landless and weaker sections.	-do-	3
	(*c*)	Identified released bonded labour.	-do-	4
	(*d*)	Identified landless labourers and rural artisans.	-do-	5
	(*e*)	Handloom weavers.	Finance for fixed and working capital.	9
	(*f*)	Handloom co-operatives.	-do-	9
(Indirect finance)		Promotional bodies and marketing organisations for decentralised sector.	Finance for working capital requirements.	9
III. Transport operators.		National permit holders.	Finance for acquisition of vehicles and working capital.	16
IV. Retail trade	(*a*)	Fair price shops/ consumers' co-operatives and super bazars.	Assistance for distribution of essential commodities	1
	(*b*)	Others like released bonded labour, allottees of house sites, etc., under the Programme, who are undertaking small retail trade business.	-do-	2,3,4 & 5

Existing category of priority sector	Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
IV. Retail trade (*Contd.*)	(*c*) Individuals/co-operatives.	Finance for distribution of controlled cloth.	10
	(*d*) Book and stationery stores run by schools/colleges. (*e*) Consumer co-operatives at educational institutions.	Finance for distribution of essential commodities (including books and stationery) at controlled prices to schools and colleges.	18&19
V. Small business	Identified beneficiaries under the 20-Point Programme, viz. released bonded labourers, allottees of house sites, etc.	Finance for carrying on small business activities not covered by Agriculture, Small Industry, Retail Trade, Transport Operators, etc.	2,3, 4 & 5

ANNEXURE IV

Part B

CATEGORIES UNDER THE 20-POINT PROGRAMME NOT PRESENTLY COMING UNDER PRIORITY SECTOR

	Borrowers/beneficiaries	Nature of assistance	Point No.
(*a*)	Organisations engaged in production, procurement and distribution of essential commodities.	Assistance for production, procurement and distribution of essential commodities.	1
(*b*)	Allottees of house sites	Assistance for construction of houses.	2,3, 4,5, & 11
(*c*)	Identified released bonded labourers, landless labourers, rural artisans, etc.	Pure consumption loans under Consumption Loan Scheme.	
(*d*)	Industrial units/Electricity Boards and undertakings.	Loan assistance for setting up power plants*.	8
(*e*)	Large scale and medium scale industries	Finance for undertaking production of controlled cloth.	10
(*f*)	National permit holders (other than those covered in Part A).	Finance for acquisition of vehicles and working capital.	16

* This will not include subscription to bonds issued by Electricity Boards.

ANNEXURE V

STATEMENT SHOWING THE CLASSIFICATION OF PRIORITY SECTOR ADVANCES AS REDEFINED BY THE WORKING GROUP

Category of priority sector	Recommendation of the Working Group
I. Agriculture	
(*i*) Direct Finance	No change in the present definition given in RBI's circular of February 1972.
(*ii*) Indirect Finance	-do-
II. Small-scale Industry	-do-
III. Small Road and Water Transport Operators.	Advances to transport operators owning a fleet of not exceeding 6 vehicles, including the one proposed to be financed and working capital.
IV. Loans for setting up industrial—estates	Loans for setting up industrial estates.
V. Retail Trade	Advances granted to— (*i*) retail traders in fertilisers and mineral oils with annual turnover not exceeding Rs. 10 lakhs. (*ii*) Other retail traders with annual turnover of not exceeding Rs. 4 lakhs and which are eligible for DICGC cover.
VI. Small Business	Advances granted to individual or firm managing a business enterprise established mainly for the purpose of providing any service other than professional services and where the cost of equipment required does not exceed Rs. 2 lakhs and which are eligible for DICGC cover. Advances for acquisition, construction, renovation of house boats and other tourist accommodation will be included here.

Category of priority sector	Recommendation of the Working Group
VII. Professional and Self-employed persons	Advances upto Rs. 2,00,000/- to individual or firm who, or every one of whose partners, is trained in any art or craft and holds either a degree or diploma or is considered to be technically qualified or skilled in his line and is rendering professional services and which are also eligible for DICGC cover.
VIII. Education	No change for the present.

In addition, the following categories are suggested for inclusion in 'priority sector' :

1. Housing Loans—	
(*i*) Direct finance	Loans upto Rs. 5000/- for construction of houses granted to SC/ST and the weaker sections of the society irrespective of DICGC coverage.
(*ii*) Indirect finance	Assistance given to any governmental agency for the purpose of constructing houses exclusively for the benefit of SC/ST and low income groups and where loan component does not exceed Rs. 5000/-per unit.
	Assistance to any governmental agency for slum clearance and rehabilitation of slum dwellers subject to other conditions specified above.
2. Consumption Loans	Pure consumption loans granted under the 'Consumption Credit Scheme'.
3. Loans to State sponsored organisations assisting the weaker sections in the various categories of priority sector.	Advances which satisfy the conditions stipulated by the Working Group in Chapter III regarding lending through State sponsored Corporations. These may be classified as 'Indirect finance'.

ANNEXURE VI

Part A

REVISED LIST OF BENEFICIARIES TO BE ASSISTED BY BANKS UNDER THE 20-POINT PROGRAMME*

Category of priority sector		Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
I. Agriculture (Direct finance)	(*a*)	Identified landless labourers and others who have been allotted surplus land, oral share-croppers, etc., given recorded rights in land.	Assistance for agriculture and allied activities.	2
	(*b*)	Allottees of house sites amongst landless and weaker sections.	Assistance for taking up agricultural and allied activities in addition to housing finance.	3
	(*c*)	Identified released bonded labour.	Assistance for agricultural and allied activities.	4
	(*d*)	Identified landless labourers, small farmers.	-do-	5
	(*e*)	Individual farmers	Assistance for minor irrigation.	6
	(*f*)	Individual farmers	Pure consumption loans.	5
(Indirect finance)	(*a*)	State-sponsored credit institutions specifically sponsored for beneficiaries of the 20-Point Programme.	Finance for agriculture and allied activities.	2,3,4 & 5.
	(*b*)	Government agencies engaged in implementing minor irrigation schemes.	-do-	7
	(*c*)	Electricity Boards	Assistance for energisation of pumpsets under rural electrification schemes.	7

Category of priority sector	Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
II. Small scale industry (Direct finance)	(*a*) Identified landless labourers and others who have been allotted surplus land.	Finance for setting up rural and other small industries	2
	(*b*) Allottees of house sites amongst landless and weaker sections.	-do-	3
	(*c*) Identified released bonded labour.	-do-	4
	(*d*) Identified landless labourers and rural artisans.	-do-	5
	(*e*) Individual artisans, etc.	Pure consumption loans	5
	(*f*) Handloom weavers.	Finance for fixed and working capital	9
	(*g*) Handloom co-operatives	-do-	9
(Indirect finance)	Promotional bodies and marketing organisations for decentralised sector.	Working capital requirements	9
III. Transport operators	National permit holders.	Finance for acquisition of vehicles and working capital.	16
IV. Retail trade	(*a*) Fair price shops/consumers' co-operatives and super bazars	Assistance for distribution of essential commodities	1
	(*b*) Others like released bonded labour, allottees of house sites, etc., under the Programme, who are engaged in small retail trade business.	-do-	2,3, 4 & 5
	(*c*) Individuals/co-operatives	Finance for distribution of controlled cloth.	10
	(*d*) Book and stationery stores run by schools/colleges. (*e*) Consumer co-operatives at educational institutions	Finance for distribution of essential commodities (including books and stationery) at controlled prices to schools and colleges	18 & 19

Category of priority sector	Beneficiary under the 20-Point Programme	Nature of assistance	Point No.
V. Small business	Identified beneficiaries under 20-Point Programme *viz.*, released bonded labourers, allottees of house sites, etc.	Finance for carrying on small business activities not covered by Agriculture, Small Industry, Retail Trade, Transport Operators, etc.	2,3, 4 & 5
VI. Housing Finance	Allottees of house sites	Housing finance	3
VII. Pure consumption loans	Rural poor including released bonded labour, those benefitted by debt relief legislation etc.	Pure consumption loans.	5

* The list has been prepared on the basis of the revised definitions of priority sectors suggested by the Group.

ANNEXURE VI

Part B

CATEGORIES UNDER THE 20-POINT PROGRAMME NOT COMING UNDER PRIORITY SECTOR

	Borrowers/beneficiaries	Nature of assistance	Point No.
(*a*)	Organisations engaged in production, procurement and distribution of essential commodities.	Assistance for production, procurement and distribution of essential commodities.	1
(*b*)	Industrial units/Electricity Boards and undertakings.	Loan assistance for setting up power plants*	8
(*c*)	Large scale and medium scale industries	Finance for undertaking production of controlled cloth.	10
(*d*)	National Permit holders (other than those covered in Part A).	Finance for acquisition of vehicles and working capital.	16

* This will not include bonds of Electricity Boards subscribed by banks.

Note :—No reporting of item (*a*) and (*c*) is considered necessary.

LIST OF ABBREVIATIONS USED

AFC	—	Agricultural Finance Corporation.
ARDC	—	Agricultural Refinance and Development Corporation.
BSR	—	Basic Statistical Returns.
BTC	—	Bankers Training College.
CAB	—	College of Agricultural Banking.
CGO	—	Credit Guarantee Organisation.
DCC	—	District Consultative Committee.
DCP	—	District Credit Plan.
DICGC	—	Deposit Insurance and Credit Guarantee Corporation.
DRI	—	Differential Rate of Interest.
IBA	—	Indian Banks' Association.
IDBI	—	Industrial Development Bank of India.
KVIC	—	Khadi and Village Industries Commission.
NIBM	—	National Institute of Bank Management.
PEP	—	Productivity, Efficiency and Profitability in Banks.
RBI	—	Reserve Bank of India.
RRB	—	Regional Rural Bank.
SLCC	—	State Level Co-ordination Committee.
SSI	—	Small Scale Industry.